

Koor Industries Limited

**Financial Statements
As at December 31, 2007**

Financial Statements as at December 31, 2007

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Report of Independent Registered Public Accounting Firm to the Shareholders of Koor Industries Ltd.

We have audited the accompanying balance sheets of Koor Industries Ltd. (hereinafter – “the Company”) as at December 31, 2007 and 2006 and the consolidated balance sheets of the Company and its subsidiaries (hereinafter – “the consolidated”) as at December 31, 2007 and 2006, and the related statements of operations, changes in shareholders’ equity and cash flows, for each of the years in the three-year period ended December 31, 2007. These financial statements are the responsibility of the Company’s Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, including those consolidated by the proportionate consolidation method. The financial statements of these subsidiaries reflect total assets constituting 2% and 9% of the total consolidated assets as at December 31, 2007 and 2006, respectively, and total revenues constituting 17%, 61% and 11% of the total continuing consolidated revenues for the years ended December 31, 2007, 2006 and 2005, respectively, and 15%, 14% and 37% of the total discontinued consolidated revenues for the years ended December 31, 2007, 2006 and 2005, respectively. Furthermore, we did not audit the financial statements of certain affiliates, whose company’s investments constitute NIS 195,595 thousand and NIS 134,593 thousand, as at December 31, 2007 and 2006, respectively, and its equity in earnings (losses) constitute NIS 28,793 thousand, NIS 9,315 thousand and NIS (5,469) thousand for the years ended December 31, 2007, 2006 and 2005, respectively. The financial statements of those subsidiaries and affiliates were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts included for such subsidiaries and affiliates, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audits, and reports of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and the consolidated financial position of the Company and its subsidiaries as at December 31, 2007 and 2006 and their results of operations, changes in shareholders’ equity and cash flows - Company and consolidated - for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in Israel. Furthermore, in our opinion, these statements are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2(B) to the financial statements, these financial statements are stated in reported amounts, in accordance with the accounting standards of the Israel Accounting Standards Board.

Without qualifying our opinion, we draw attention to Note 19A(4)(5) to the consolidated financial statements regarding a claim and motion for recognition as a class action lodged against one of the Company’s investees alleging air pollution.

Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

March 17, 2008
Tel Aviv, Israel

Consolidated Balance Sheets as at December 31

		2007	2006	Convenience translation (Note 1B) 2007
	Note	NIS thousands	NIS thousands	\$ thousands
Assets				
Current assets				
Cash and cash equivalents		1,917,412	241,586	498,547
Short-term deposits and investments	4	457,590	695,931	118,978
Trade receivables	5	40,236	33,010	10,462
Other receivables	6	66,098	64,521	17,186
Inventories and projects in progress	7	57,628	62,319	14,984
		2,538,964	1,097,367	660,157
Investments and long-term receivables				
Investments in affiliates	8	2,610,375	3,322,177	678,725
Other investments and receivables	9	128,712	179,488	33,466
		2,739,087	3,501,665	712,191
Investment real estate	10	111,880	*80,080	29,090
Fixed assets, net	11	7,851	*9,528	2,041
Intangible assets, deferred expenses and deferred tax assets	12	16,126	546	4,193
Assets relating to discontinued operations	24	-	814,645	-
		5,413,908	5,503,831	1,407,672

* Reclassified – See Note 2AC(4).

** Reclassified for discontinued operations – See Note 24(4).

Consolidated Balance Sheets as at December 31

		2007	2006	Convenience translation (Note 1B) 2007
	Note	NIS thousands	NIS thousands	\$ thousands
Liabilities and Shareholders' Equity				
Current liabilities				
Credit from banks and others	13	330,460	33,800	85,923
Trade payables	14	54,515	40,473	14,174
Other payables	15	164,259	161,228	42,709
Customer advances		6,015	1,779	1,564
		555,249	237,280	144,370
Long-term liabilities				
Long-term bank loans	16A	1,076,901	1,331,367	280,005
Other long-term loans	16A	14,618	15,274	3,801
Debentures	16B	1,634,775	988,482	425,059
Deferred taxes	17G	2,385	34	620
Liability for employee severance benefits, net	18	-	2,137	-
		2,728,679	2,337,294	709,485
Liabilities relating to discontinued operations	24	-	737,721	-
Contingent liabilities and commitments	19			
Minority interest		117	2,348	30
Shareholders' equity	20	2,129,863	2,189,188	553,787
		5,413,908	5,503,831	1,407,672

Ami Erel
Chairman of the Board of
Directors

Raanan Cohen
Chief Executive Officer

Michal Yageel
Corporate Controller

March 17, 2008

* Reclassified for discontinued operations – See Note 25(4).

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

Company Balance Sheets as at December 31

		2007	2006	Convenience translation (Note 1B) 2007
	Note	NIS thousands	NIS thousands	\$ thousands
Assets				
Current assets				
Cash and cash equivalents		1,689,139	238,207	439,194
Short-term deposits and investments	4	441,925	657,285	114,905
Short-term loans to investee companies		18,585	39,308	4,832
Receivables:				
Investee companies		162,942	1,114	42,367
Others	6	52,554	2,510	13,665
		2,365,145	938,424	614,963
Investments and long-term receivables				
Investments in investees	8	2,780,963	2,579,219	723,079
Other investments and receivables	9	38,772	62,799	10,081
		2,819,735	2,642,018	733,160
Investment real estate	10	80,100	*58,425	20,827
Fixed assets, net	11	1,463	*1,718	380
		5,266,443	3,640,585	1,369,330

* Reclassified – See Note 2R(4).

Company Balance Sheets as at December 31

		2007	2006	Convenience translation (Note 1B) 2007
	Note	NIS thousands	NIS thousands	\$ thousands
Liabilities and Shareholders' Equity				
Current liabilities				
Credit from banks and others	13	282,904	-	73,558
Trade payables	14	1,463	1,346	380
Others	15	62,396	95,888	16,224
		346,763	97,234	90,162
Long-term liabilities				
Loans from banks and others	16	1,075,591	306,961	279,665
Debentures	16B	1,634,775	988,482	425,058
Liability for employee severance benefits, net	18	-	2,137	-
Excess of accumulated losses over investments in affiliates	8	79,451	56,583	20,658
		2,789,817	1,354,163	725,381
Contingent liabilities and commitments	19			
Shareholders' equity	20	2,129,863	2,189,188	553,787
		5,266,443	3,640,585	1,369,330

Ami Erel
Chairman of the Board of
Directors

Raanan Cohen
Chief Executive Officer

Michal Yageel
Corporate Controller

March 17, 2008

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

Consolidated Statements of Operations for the Year Ended December 31

		2007	2006 (1)	2005 (2)	Convenience translation (Note 1B) 2007
	Note	NIS thousands	NIS thousands	NIS thousands	\$ thousands
Revenues and earnings					
Revenue from sales and services	23A	218,535	270,452	462,188	56,821
Koor Group's equity in the operating results of investee companies, net	23G	295,159	(37,555)	361,131	76,745
Other income, net	23F	576,963	99,492	214,058	150,016
		<u>1,090,657</u>	<u>332,389</u>	<u>1,037,377</u>	<u>283,582</u>
Costs and losses					
Cost of sales and services	23B	192,302	210,097	378,694	50,000
Selling and marketing expenses	23C	44,481	47,315	69,152	11,566
General and administrative expenses	23D	53,708	87,514	102,384	13,964
Financing expenses, net	23E	192,353	97,480	138,990	50,014
		<u>482,844</u>	<u>442,406</u>	<u>689,220</u>	<u>125,544</u>
Earnings (losses) before income tax		607,813	(110,017)	348,157	158,038
Income tax	17H	109	(4,671)	(77,396)	28
		<u>607,922</u>	<u>(114,688)</u>	<u>270,761</u>	<u>158,066</u>
Minority interest in consolidated companies' results, net		<u>2,016</u>	<u>(2,430)</u>	<u>112</u>	<u>524</u>
Net earnings (losses) from continuing operations		609,938	(117,118)	270,873	158,590
Net earnings from discontinued operations, net	24	10,355	13,918	39,778	2,693
Cumulative effect as at the beginning of the year of change in accounting method (see Note 2S(9))		-	62,552	(3,054)	-
Net earnings (losses) for the year		<u>620,293</u>	<u>(40,648)</u>	<u>307,597</u>	<u>161,283</u>
	Note	NIS	NIS	NIS	NIS
Basic earnings (loss) per ordinary share:					
	27				
From continuing operations		36.261	(6.623)	17.099	9.428
From discontinued operations		0.624	0.849	2.482	0.162
From cumulative effect of change in accounting method		-	3.815	(0.191)	-
Net earnings (loss) for the year		<u>36.885</u>	<u>(1.959)</u>	<u>19.390</u>	<u>9.590</u>
Diluted earnings (loss) per ordinary share:					
From continuing operations		36.116	(7.161)	14.435	9.391
From discontinued operations		0.623	0.849	2.404	0.162
From cumulative effect of change in accounting method		-	3.815	(0.185)	-
Net earnings (loss) for the year		<u>36.739</u>	<u>(2.497)</u>	<u>16.654</u>	<u>9.553</u>

(1) Reclassified for discontinued operations, see Note 24(4).

(2) Reclassified for discontinued operations, see Note 24.

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

Company Statements of Operations for the Year Ended December 31

	Note	2007	2006	2005	Convenience translation (Note 1B)
		NIS thousands	NIS thousands	NIS thousands	2007 \$ thousands
Revenues and earnings					
Management services from Investee companies		2,583	7,499	20,024	672
Koor's equity in the operating results of investee companies, net	23G	646,399	7,094	130,443	168,070
Other income, net	23F	71,569	61,914	438,133	18,609
		<u>720,551</u>	<u>76,507</u>	<u>588,600</u>	<u>187,351</u>
Costs and losses					
General and administrative expenses	23D	35,563	65,773	58,684	9,247
Financing expenses, net	23E	64,695	51,382	144,836	16,821
		<u>100,258</u>	<u>117,155</u>	<u>203,520</u>	<u>26,068</u>
Earnings (loss) before income tax		620,293	(40,648)	385,080	161,283
Income tax		-	-	(77,483)	-
Net earnings (loss) for the year		<u>620,293</u>	<u>(40,648)</u>	<u>307,597</u>	<u>161,283</u>

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

Consolidated Statement of Changes in Shareholders' Equity

	Number of ordinary shares (1)	Share capital	Capital reserve	Amounts received in respect of stock options	Company shares held by the Company and subsidiaries	Cumulative foreign currency translation adjustments	Accumulated losses	Total
	NIS thousands							
Balance as December 31, 2004	15,824,185	564,515	2,564,099	-	(80,321)	(205,674)	(966,152)	1,876,467
Changes during 2005:								
Net earnings for the year	-	-	-	-	-	-	307,597 *	307,597 *
Stock-based compensation expense	-	-	1,389	-	-	-	-	1,389 *
Issuance of treasury stock	193,229	-	-	-	74,250	-	(24,641)	49,609
Issuance of stock options (Note 20C)	-	-	-	21,715	-	-	-	21,715
Exercise of stock options granted to employees	129,254	-	-	-	-	-	-	-
Cumulative foreign currency translation adjustments, net	-	-	-	-	-	221,657	-	221,657
Balance as December 31, 2005	16,146,668	564,515	2,565,488	21,715	(6,071)	15,983	(683,196)	2,478,434
Changes during 2006:								
Net loss for the year	-	-	-	-	-	-	(40,648)	(40,648)
Stock-based compensation expense	-	-	1,236	-	-	-	-	1,236
Exercise of stock options granted to employees	420,402	-	-	-	-	-	-	-
Cumulative foreign currency translation adjustments, net	-	-	-	-	-	(249,834)	-	(249,834)
Balance as December 31, 2006	16,567,070	564,515	2,566,724	21,715	(6,071)	(233,851)	(723,844)	2,189,188
Changes during 2007:								
Net earnings for the year	-	-	-	-	-	-	620,293	620,293
Dividend	-	-	-	-	-	-	(529,884)	(529,884)
Adjustment of retained earnings for investment real estate (Note 2AC(4))	-	-	-	-	-	-	52,246	52,246
Adjustment of retained earnings for research and development in process (Note 2AC(5))	-	-	-	-	-	-	1,728	1,728
Compensation expenses for employee options	-	-	148	-	-	-	-	148
Exercise of stock options granted to investors	547	-	173	(14)	-	-	-	159
Exercise of stock options granted to employees	57,052	*-	-	-	-	-	-	*-
Cumulative foreign currency translation adjustments, net	-	-	-	-	-	(204,015)	-	(204,015)
Balance as December 31, 2007	16,624,669	564,515	2,567,045	21,701	(6,071)	(437,866)	(579,461)	2,129,863

* Represents a sum of less than NIS 1.

(1) Net of the holdings of the Company and subsidiaries.

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

Consolidated Statement of Changes in Shareholders' Equity

	Number of ordinary shares (1)	Share capital	Capital reserve	Amounts received in respect of stock options	Company shares held by the Company and subsidiaries	Cumulative foreign currency translation adjustments	Accumulated losses	Total
	Convenience translation (Note 1B) \$ thousands							
Balance as December 31, 2006	16,567,070	146,780	667,375	5,646	(1,579)	(60,804)	(188,206)	569,212
Changes during 2007:								
Net earnings for the year	-	-	-	-	-	-	161,281	161,281
Dividend	-	-	-	-	-	-	(137,775)	(137,775)
Adjustment of retained earnings for investment real estate (Note 2AC(4))	-	-	-	-	-	-	13,585	13,585
Adjustment of retained earnings for research and development in process (Note 2AC(5))	-	-	-	-	-	-	449	449
Compensation expenses for employee options	-	-	38	-	-	-	-	38
Exercise of stock options granted to investors	547	-	45	(4)	-	-	-	41
Exercise of stock options granted to employees	57,052	*.	-	-	-	-	-	*.
Cumulative foreign currency translation adjustments, net	-	-	-	-	-	(53,046)	-	(53,046)
Balance as December 31, 2007	16,624,669	146,780	667,458	5,642	(1,579)	(113,850)	(150,666)	553,785

* Represents a sum of less than NIS 1.

(1) Net of the holdings of the Company and subsidiaries.

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

Consolidated Statement of Cash Flows for the Year Ended December 31

	Reported amounts			Convenience translation (Note 1B)
	2007 NIS thousands	2006 (1) NIS thousands	2005 (2) NIS thousands	2007 \$ thousands
Cash flows generated by operating activities				
Net earnings (loss) for the year	620,293	(40,648)	307,597	161,283
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	(800,165)	16,273	(338,856)	(208,052)
Net cash outflow generated by continuing operating activities	(179,872)	(24,375)	(31,259)	(46,769)
Net cash inflow (outflow) generated by discontinued operating activities	9,006	31,556	(143,792)	2,342
Net cash flows from operating activities	(170,866)	7,181	(175,051)	(44,427)
Cash flows generated by investing activities:				
Purchase of fixed assets	(2,220)	(3,934)	(4,737)	(577)
Amounts charged to intangible assets	(20,815)	-	-	(5,412)
Investments in affiliates and other companies	(53,451)	(923,965)	-	(13,898)
Proceeds from realization of investments in formerly consolidated subsidiaries, net of cash in those subsidiaries at the time they ceased being consolidated (B)	-	-	199,953	-
Proceeds from realization of investment in proportionately consolidated subsidiary at the time it ceased being proportionately consolidated (C)	-	-	(14,122)	-
Proceeds from realization of investments in investee and other companies	1,758,286	182,161	644,850	457,173
Proceeds from sale of fixed assets	270	910	1,272	70
Investment in venture capital companies	(4,635)	(7,417)	(15,426)	(1,205)
Decrease (increase) in other investments, net	3,077	1,649	(351,901)	800
Decrease (increase) in short-term deposits and investments, net	42,832	1,708	(167,297)	11,137
Net cash inflow (outflow) generated by continuing investing activities	1,723,344	(722,567)	291,241	448,088
Net cash inflow (outflow) generated by discontinued investing activities	(5,541)	(62,707)	127,689	(1,441)
Net cash flows from investing activities	1,717,803	(785,274)	418,930	446,647

(1) Reclassified for discontinued operations, see Note 24(4).

(2) Reclassified for discontinued operations, see Note 24.

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

Consolidated Statements of Cash Flows for the Year Ended December 31 (cont'd)

	Reported amounts			Convenience Translation (Note 1B)
	2007 NIS thousands	2006 (1) NIS thousands	2005 (2) NIS thousands	2007 \$ thousands
Cash flows generated by financing activities				
Proceeds from issuance of debentures, net	640,789	593,988	375,535	166,612
Proceeds from issuance of stock options	-	-	21,715	-
Proceeds from issuance of treasury stock	-	-	49,609	-
Proceeds from issuance of stock	159	-	-	41
Dividend distribution	(529,884)	-	-	(137,775)
Acquisition of stock options by subsidiary	-	(1,138)	-	-
Receipt of long-term loans and other long-term liabilities	3,187	142,363	1,016,427	829
Repayment of long-term loans, debentures and other long-term liabilities	(28,891)	(53,081)	(1,839,911)	(7,512)
Increase (decrease) in credit from banks and others, net	13,824	(2,835)	(183,083)	3,594
Net cash inflow (outflow) generated by continuing financing activities	99,184	679,297	(559,709)	25,789
Net cash inflow (outflow) generated by discontinued financing activities	(5,647)	47,643	6,720	(1,468)
Net cash flows from financing activities	93,537	726,940	(552,989)	24,321
Translation differences in respect of cash balances of autonomous foreign investee companies in continuing operations	(260)	(657)	204	(68)
Translation differences in respect of cash balances of autonomous foreign investee companies in discontinued operations	-	74	22,349	-
Decrease in cash and cash equivalents	1,640,214	(94,624)	22,553	426,473
Increase (decrease) in cash and cash equivalents from discontinued operations*	35,612	52,449	294,942	9,259
Increase (decrease) in cash and cash equivalents from continuing operations	1,675,826	(42,175)	8,385	435,732
Balance of cash and cash equivalents at beginning of year	241,586	283,761	275,376	62,815
Balance of cash and cash equivalents at end of year	1,917,412	241,586	283,761	498,547

* Including proceeds received from sale of a subsidiary classified as discontinued operations.

(1) Reclassified for discontinued operations, see Note 24(4).

(2) Reclassified for discontinued operations, see Note 24.

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

Consolidated Statements of Cash Flows for the Year Ended December 31 (cont'd)

	Reported amounts			Convenience Translation (Note 1B)
	2007 NIS thousands	2006 (1) NIS thousands	2005 (2) NIS thousands	2007 \$ thousands
A. Adjustments to reconcile net earnings to net cash flows generated by operating activities:				
Income and expenses not involving cash flows:				
Earnings from discontinued operations	(10,355)	(13,918)	(39,778)	(2,692)
Minority interest in earnings (losses) of subsidiaries, net	(2,016)	2,430	(112)	(524)
Koor Group's equity in operating results of affiliates, net	(285,597)	140,554	(269,978)	(74,258)
Depreciation and amortization	7,077	5,403	15,844	1,840
Deferred taxes, net	198	13,869	70,999	51
Increase (decrease) in liabilities in respect of employee severance benefits, net	(2,762)	2,097	24,710	(718)
Revaluation of investment real estate	(3,600)	-	-	(936)
Net capital losses (gains) from realization of:				
Fixed assets and other assets	(74)	339	(254)	(19)
Investment in affiliated companies	(539,004)	(79,308)	(204,619)	(140,147)
Investments in other companies	(51,990)	-	(76,653)	(13,518)
Amortization of stock based compensation	245	1,633	1,389	64
Appreciation of debentures and amortization of discount	27,270	23,765	15,318	7,090
Inflationary erosion (linkage) of principal of long-term loans and other liabilities	33,935	(25,545)	18,683	8,823
Linkage of value of investments, deposits and of loans receivable	(378)	(8,350)	(14,299)	(98)
Impairment in (appreciation of) value of assets and investments (primarily venture capital investments)	11,715	(1,504)	68,786	3,046
Cumulative effect as at the beginning of the year of change in accounting method	-	(62,552)	3,054	-
	(815,336)	(1,087)	(386,910)	(211,996)

(1) Reclassified for discontinued operations, see Note 24(4).

(2) Reclassified for discontinued operations, see Note 24.

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

Consolidated Statements of Cash Flows for the Year Ended December 31 (cont'd)

	2007	2006 (1)	Reported amounts 2005 (2)	Convenience Translation (Note 1B) 2007
	NIS thousands	NIS thousands	NIS thousands	\$ thousands
A. Adjustments to reconcile net earnings to net cash flows generated by operating activities (cont'd):				
Changes in operating asset and liability items:				
Decrease (increase) in trade receivables and other receivables (after taking into account non-current receivables)	(29,627)	15,782	(7,729)	(7,703)
Decrease in inventories and customer advances	5,769	18,035	10,091	1,500
Increase (decrease) in trade payables and other payables	39,029	(16,457)	49,161	10,147
	<u>15,171</u>	<u>17,360</u>	<u>52,522</u>	<u>3,944</u>
	<u>(800,165)</u>	<u>16,273</u>	<u>(335,388)</u>	<u>(208,052)</u>
B. Proceeds from realization of investments in formerly consolidated subsidiaries, net of cash in those subsidiaries at the time they ceased being consolidated				
Assets and liabilities of the formerly consolidated subsidiaries at the time they ceased being consolidated:				
Working capital surplus (deficit), excluding cash and cash equivalents	-	-	1,031,023	-
Fixed assets and investments	-	-	1,971,804	-
Other assets	-	-	2,316,290	-
Long-term liabilities	-	-	(1,601,477)	-
Investments in affiliated companies, net	-	-	(1,315,995)	-
Realization of foreign currency translation adjustments of financial statements of autonomous investees	-	-	18,141	-
Capital gain (loss) on sale of investments in subsidiaries	-	-	200,987	-
Minority interest	-	-	(2,420,820)	-
	<u>-</u>	<u>-</u>	<u>199,953</u>	<u>-</u>

(1) Reclassified for discontinued operations, see Note 24(4).

(2) Reclassified for discontinued operations, see Note 24.

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

Consolidated Statements of Cash Flows for the Year Ended December 31 (cont'd)

			Reported amounts	Convenience Translation (Note 1B)
	2007	2006 (1)	2005 (2)	2007
	NIS thousands	NIS thousands	NIS thousands	\$ thousands
C. Proceeds from realization of investment in proportionately consolidated subsidiary at the time it ceased being proportionately consolidated				
Assets and liabilities of formerly proportionately consolidated subsidiary, at the time it ceased being proportionately consolidated:				
Working capital surplus, excluding cash and cash equivalents	-	-	36,900	-
Fixed assets and investments	-	-	129,917	-
Long-term liabilities	-	-	(62,023)	-
Investments in affiliated companies, net	-	-	(117,623)	-
Capital gain	-	-	3,632	-
Minority interest	-	-	(4,925)	-
	-	-	(14,122)	-
D. Non-cash transactions				
Purchase of fixed assets by credit	-	-	4,712	-
Dividend in kind from affiliated company	-	10,470	-	-
Receivable from sale of venture capital investments	-	56,159	-	-
Loans converted into capital of subsidiary	-	-	13,419	-
Receivable for sale of discontinued operation	36,797	-	-	9,568

(1) Reclassified for discontinued operations, see Note 25(4).

(2) Reclassified for discontinued operations, see Note 4.

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

Company Statements of Cash Flows for the Year Ended December 31

			Reported amounts	Convenience Translation (Note 1B)
	2007	2006	2005	2007
	NIS thousands	NIS thousands	NIS thousands	\$ thousands
Cash flows generated by operating activities:				
Net earnings (loss) for the year	620,293	(40,648)	307,597	161,283
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	(720,026)	(6,708)	(427,072)	(187,215)
Net cash inflow (outflow) generated by operating activities	(99,733)	(47,356)	(119,475)	(25,932)
Cash flows generated by investing activities:				
Investee companies:				
Acquisition of shares	(24,063)	(938,545)	(23,442)	(6,257)
Loans granted (received), capital notes and non-current accounts	(54,388)	40,404	40,631	(14,141)
Purchase of fixed assets	(5)	(200)	(176)	(1)
Decrease (increase) in investments and other receivables, net	267,730	177,186	(351,631)	69,612
Proceeds from sale of fixed assets	9	66	8	2
Prepaid income on account of sale of affiliated company	-	26,321	-	-
Proceeds from realization of investments in investee companies	34,652	42,694	1,372,044	9,010
Return of investment in partnership	131,802	-	-	34,270
Investment in short-term deposits and investments, net	65,804	(9,826)	(143,307)	17,110
Net cash inflow (outflow) generated by investing activities	421,541	(661,900)	894,127	109,605
Cash flows generated by financing activities:				
Proceeds from issuance of debentures	640,789	593,988	375,535	166,612
Proceeds from issuance of stock options	-	-	21,715	-
Proceeds from issuance of dormant shares	-	-	49,609	-
Proceeds from exercise of institutional options	159	-	-	41
Dividend distribution	(530,387)	-	-	(137,906)
Receipt of long-term loans and other long-term liabilities	1,040,329	142,897	1,007,119	270,496
Payments of long-term loans and other long-term liabilities	(21,766)	(49,094)	(1,812,366)	(5,659)
Credit from banks and others, net	-	(7,290)	(178,967)	-
Net cash inflow (outflow) generated by financing activities	1,129,124	680,501	(537,355)	293,584
Increase (decrease) in cash and cash equivalents	1,450,932	(28,755)	237,297	377,257
Balance of cash and cash equivalents at beginning of year	238,207	266,962	29,665	61,937
Balance of cash and cash equivalents at end of year	1,689,139	238,207	266,962	439,194

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

Company Statements of Cash Flows for the Year Ended December 31 (cont'd)

	Reported amounts			Convenience Translation (Note 1B)
	2007 NIS thousands	2006 NIS thousands	2005 NIS thousands	2007 \$ thousands
A. Adjustments to reconcile net earnings to cash flows generated by operating activities				
Income and expenses not involving cash flows:				
Equity in operating results of investee companies, net of dividend received therefrom	(615,881)	(2,785)	(109,173)	(160,135)
Compensation expenses for employee stock options	148	1,236	1,389	38
Depreciation and amortization	247	1,905	2,043	64
Deferred taxes, net	-	-	77,483	-
Increase (decrease) in liability in respect of employee severance benefits, net	(2,762)	2,137	(1,917)	(718)
Net capital losses (gains) from realization of:				
Fixed assets	4	453	7	1
Investment in investee companies	(68,163)	(41,655)	(424,261)	(17,724)
Increase in value of deposits and other erosions, net	(51,603)	(8,084)	(13,611)	(13,417)
Erosion (linkage) of loans from banks and others	38,475	5,116	49,006	10,004
Revaluation of investment real estate	(3,600)	-	-	(936)
Change in value of investments and assets	4,996	1,128	(377)	1,299
	<u>(698,139)</u>	<u>(40,549)</u>	<u>(419,411)</u>	<u>(181,524)</u>
Changes in operating assets and liability items:				
Decrease (increase) in current accounts of investee companies, net	(1,586)	(1,427)	2,103	(413)
Decrease (increase) in receivables	(13,247)	13,585	(9,535)	(3,444)
Increase (decrease) in trade payables and other payables	(7,054)	21,683	(229)	(1,834)
	<u>(21,887)</u>	<u>33,841</u>	<u>(7,661)</u>	<u>(5,691)</u>
	<u>(720,026)</u>	<u>(6,708)</u>	<u>(427,072)</u>	<u>(187,215)</u>
B. Significant non-cash transactions				
Dividend from subsidiary	130,000	534,861	-	33,801
Loans converted into investment in subsidiaries	-	638,706	46,588	-
Assignment of long-term liabilities	-	1,014,170	-	-
Receivables from sale of shares in investee company	36,797	-	-	9,568

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

Notes to the Financial Statements for the Year Ended December 31

Note 1 - General

- A.** Koor Industries Ltd. is a holding company, engaged mainly in the fields of agro-chemicals, equipment and telecommunications and venture capital investments, through its subsidiaries and affiliates (the "Koor Group" or the "Group").
- B.** The financial statements in reported amounts as at December 31, 2007 and for the year ended have been translated into U.S. dollars using the representative exchange rate at that date (\$1 = NIS 3.846). The translation was made solely for the convenience of the reader.
The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated in these financial statements.

Note 2 - Significant Accounting Policies

The financial statements have been prepared in accordance with the accounting principles generally accepted in Israel (Israel GAAP) and in accordance with the Securities' Regulations (Preparation of Annual Financial Reports) – 1993.

The significant accounting policies, which were applied on a consistent basis, are as follows:

A. Definitions

In these financial statements:

- | | | | |
|----|--|---|---|
| 1. | The Company | - | Koor Industries Ltd. ("Koor" or "the Company"). |
| 2. | The Group | - | Koor Industries Ltd. and its investees, as provided in the list of companies. |
| 3. | Subsidiaries | - | companies, including partnerships, whose statements are fully consolidated, directly or indirectly, with those of the Company. |
| 4. | Proportionately consolidated Companies | - | jointly controlled companies, which are proportionately consolidated, directly or indirectly, in Koor's consolidated financial statements. |
| 5. | Affiliates | - | companies in which voting rights grant the Company significant influence over the operating and financial policies of these companies, and which are not subsidiaries or proportionately consolidated companies. Such companies are included on the equity basis. |
| 6. | Investees | - | subsidiaries, proportionately consolidated companies or affiliates. |
| 7. | Other companies | - | companies in which the investment does not confer significant influence, and are accounted for by the cost method. |
| 8. | Interested parties | - | as defined in Paragraph (1) of the definition of "interested parties" in Section 1 of the Israeli Securities Law - 1968. |
| 9. | Related parties | - | as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel ("ICPAI"). |

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)

A. Definitions (cont'd)

- | | | | |
|----|-----------------------------|---|---|
| 10 | Controlling shareholders | - | as defined in the Israeli Securities Regulations (Financial Statement Presentation of Transactions between a Company and its Controlling Shareholder) – 1996 and in Accounting Standard No. 23 "Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" of the Israel Accounting Standards Board. |
| 11 | Venture capital investments | - | an investment in a company that meets two conditions:
(a) The Company is engaged primarily in research, development or marketing of innovative and intellectual property intensive products or processes; and
(b) At least 90% of the company's financing stems from shareholder equity (including shareholder loans and shareholder guaranteed credit), support of State authorities or research grants. |
| 12 | Consumer Price Index | - | the Israeli Consumer Price Index (CPI) published by the Central Bureau of Statistics. |
| 13 | Dollar | - | U.S. dollar. |
| 14 | Adjusted amount | - | the historical nominal amount adjusted to the CPI for December 2003 in conformity with the provisions of Opinions 23 and 36 of the Israel Accounting Standards Board. |
| 15 | Reported amount | - | the adjusted amount as at the transition date (December 31, 2003), with the addition of amounts in nominal values that were added after the transition date and less amounts eliminated after the transition date. |

B. Financial statements in reported amounts

1. In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 on "Discontinuation of Adjustment of Financial Statements". According to this standard, and in accordance with Accounting Standard No. 17 published in December 2002, the adjustment of financial statements for the effect of changes in the general purchasing power of the shekel was discontinued, commencing January 1, 2004. Until December 31, 2003, the Group continued to prepare financial statements adjusted for in accordance with Opinion No. 36 of the ICPAI. The Group has applied the provisions of the Standard and, accordingly, the adjustment was discontinued, commencing January 1, 2004.
2. In the past, the Company prepared its financial statements on the basis of historical cost, adjusted to the CPI. The adjusted amounts included in the financial statements as at December 31, 2003, served as the starting point for the nominal financial reporting as at January 1, 2004. Additions made during the period were included in nominal values. Therefore, the financial statements as at the dates and for the report periods after December 31, 2003 are stated in reported amounts, in accordance with the Accounting Standards of the Israel Accounting Standards Board.
3. The non-monetary asset amounts do not necessarily represent their realizable or current economic value, but only the reported amounts of such assets.
4. In the financial statements, the term "cost" means cost in reported amount.
5. The financial statements of certain companies classified as autonomous units are stated based on the changes in the exchange rates of their relevant functional currencies – see 2D below.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**C. Reporting principles**

1. Balance sheets:

- a. The equity value of investments in investees was determined based on the reported or translated into NIS financial statements of these companies.
- b. Non-monetary items (mainly – fixed assets, inventory, investments stated at cost and equity items) are stated in reported amounts.
- c. Monetary items are stated in the balance sheet at historical nominal values as at the balance sheet date.

2. Statements of operations:

- a. The equity in the results of operations of investees and the minority interest in the results of subsidiaries were determined based on the reported or translated from foreign currency financial statements of such companies.
- b. Revenues and expenses deriving from non-monetary items (such as: depreciation and amortization, changes in inventory, prepaid expenses and income, etc.) or from provisions included in the balance sheet, are derived from the change between the reported amounts of the opening balance and the reported amount of the closing balance.
- c. The remaining statement of operations items (such as: sales, purchases, current manufacturing costs, etc.) are stated at nominal values.

3. Statement of changes in shareholders' equity:

A dividend declared or paid in the reporting period is stated in nominal values.

D. Effects of the changes in foreign currency exchange rates

The Company has applied Accounting Standard No. 13 "Effect of Changes in Exchange Rates of Foreign Currency" since January 1, 2004. The Standard discusses the translation of foreign currency transactions and the translation of financial statements of foreign operations for their inclusion in the financial statements of the reporting entity. The Standard provides rules for classifying foreign operations as an autonomous foreign investee or as an integrated investee, based on indications described in the Standard and the use of judgment, as well as the method for translating the financial statements of autonomous foreign investees.

Foreign currency transactions

Transactions denominated in foreign currency are initially recorded at the exchange rate prevailing on the transaction date. Exchange rate differences arising upon the settlement of monetary items, or upon reporting of the Group's monetary items at exchange rates that are different than those used for initial recognition during the period, or from those reported in prior financial statements, are charged to the statement of operations.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)

D. Effects of the changes in foreign currency exchange rates (cont'd)

Foreign operations classified as an autonomous investee

The financial statements of investees operating in foreign countries as an "autonomous investee" of the Group are translated to Israeli currency as follows:

1. The assets and liabilities, both monetary and non-monetary of an autonomous foreign investee were translated according to the closing rate. The goodwill balance created in the acquisition of the autonomous foreign investee is treated as an asset of that foreign investee and is translated at the closing rate, beginning January 1, 2004.
2. Income and expense items are translated at the exchange rate prevailing on the transaction date, except for cases in which the autonomous foreign investee must present financial statements adjusted for inflation, in accordance with the accounting principles accepted in a hyper-inflationary environment. In such cases, income and expense items were translated at the closing price.
3. All exchange rate differences created are classified as a separate item in shareholders' equity until net disposal of the investment.

Impairment in the value of an investment in an autonomous foreign investee does not constitute a partial disposal and therefore, no part of the translation differences is charged to the statement of operations at the time of the impairment.

The Company applies Clarification No. 3, "Accounting Treatment of Impairment of Investment in Autonomous Investee that is not a Subsidiary". In accordance with the Clarification, translation differences on the impairment of an autonomous investee were classified in a separate shareholders' equity item. When there is a decrease in the impairment provision, the related translation differences are charged as income or expense in the period in which the provision decreased, in a manner proportionate to the decrease in the impairment provision.

Foreign operations classified as integrated investee

The financial statements of investees operating overseas as an "integrated investee" of the Group, were translated to Israeli currency as follows:

Non-monetary balance sheet items - at the historical exchange rate prevailing on the transaction date.

Monetary balance sheet items – at the closing rate.

Statement of operations items – were translated at average exchange rates, except for revenues and expenses related to non-monetary items that were translated at the historical exchange rates at which the related non-monetary items were translated.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**E. Consolidation of financial statements**

1. The consolidated financial statements include the financial statements of the Company and of all the companies in which the Company has control. Jointly controlled companies are included in the consolidated financial statements by the proportionate consolidation method.

A jointly controlled entity is an entity in which all the shareholders, by way of contractual arrangement, jointly control the significant operating policies thereof.

2. The list of companies whose financial statements are included in the consolidated financial statements and the Company's holding percentage in their voting rights and equity rights in shares conferring a share in earnings is provided in the list of subsidiaries in the financial statements. Regarding companies that were consolidated in the past and are not included in the consolidation in the reporting year – see Note 3C(1).
3. For the purpose of the consolidation, the amounts included in the financial statements of the consolidated companies were included after the adjustments necessitated by the application of the uniform accounting principles adopted by the Group.
4. The consolidated financial statements include the pro rata share of asset, liability, income and expense items of proportionately consolidated companies, based on the holding percentages in these companies.
5. As to the financial statements of subsidiaries that are adjusted according to changes in foreign currency exchange rates – see Note 2D above.
6. As from January 1, 2006, the Company implements Accounting Standard No. 20 (Revised), "The Accounting Treatment of Goodwill and Intangible Assets resulting from the acquisition of an Investee Company" (hereinafter – the Standard) of the IASB. In accordance with the Standard:
 - a. The excess cost created upon the acquisition of an investment in a subsidiary over the fair value of its identified assets (including intangible assets) less the fair value of the identifiable liabilities (after allocation of the tax deriving from temporary differences) on acquisition date, is charged to goodwill.
 - b. Goodwill is not amortized systematically. Instead, goodwill arising from the acquisition of a subsidiary is tested for impairment at least once a year (or on December 31, 2007, at the latest), or more frequently, should events or changes in circumstance indicate that impairment of goodwill may have occurred.
The excess cost allocated to assets and liabilities is charged to the appropriate balance sheet items. Goodwill is presented in the balance sheet under the caption "other assets, net".
 - c. The excess cost that was allocated to assets and liabilities is charged to the appropriate balance sheet items. Goodwill is stated in the consolidated balance sheet in "other assets, net".

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)

E. Consolidation of financial statements (cont'd)

d. The excess of the Company's share in the fair value of identifiable assets (including intangible assets) net of the fair value of identifiable assets of the subsidiary (after tax allocation) over the acquisition cost of the investment in the subsidiary was deducted first from the Company's share in the intangible assets of the subsidiary and the balance was deducted from the Company's share in the other non-monetary assets of the subsidiary, in a manner proportionate to the fair value of these assets. The balance of the surplus after the deductions is negative goodwill, which was recognized in the statement of operations upon acquisition.

e. Impact of the initial implementation of the Standard:

The amount of the amortization of goodwill which was identified, including the goodwill included in the account, investment in investee that is not a subsidiary, the amortization of which ceased on January 1, 2006 is NIS 26 million in the year ended December 31, 2005. The financial statements for the periods prior to the application of the Standard were not restated.

Until December 31, 2005 goodwill was amortized over its estimated useful life (mainly over a period of 10 to 20 years).

7. All intercompany balances and transactions between Group companies were eliminated for consolidation purposes. Likewise, all unrealized income from intercompany sales not yet realized outside the Group were eliminated.
8. The Company's shares that were acquired by the Company and subsidiaries are recorded as treasury stock.

F. Use of estimates

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to use estimates and assessments in determining the reported amounts of assets, liabilities, revenues, expenses and the disclosure relating to contingent assets and liabilities. It should be clarified that actual results may differ from such estimates.

G. Cash and cash equivalents

Cash and cash equivalents include short-term bank deposits and marketable short-term government loans in banks, with an original maturity of three months or less on the date of investment, and which are not restricted.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**H. Marketable Securities**1. Marketable securities

Investments in marketable securities held for the short-term as current investments are stated according to the stock market price as at the balance sheet date. The changes in the fair value of the securities are recorded in the statement of operations in each reporting period.

Investments in marketable securities, which are permanent investments (held to maturity), are stated at cost (debentures - including accrued interest), net of a provision for decrease in value that is not of a temporary nature (see also section (3) below).

2. Non-marketable securities

Non-marketable securities are stated at cost (debentures - including accrued interest), which, in management's opinion does not exceed realization value (see also section (3) below).

3. Decrease in value of investments

From time to time, the Group evaluates whether there has been a non-temporary decrease in value in its permanent investments in other companies. Such a review is carried out where there are indications of the possibility that the value of such investments has been impaired, including a decline in stock market prices, the investee's businesses, the industry in which the investee operates and other parameters. Any impairment in value of these investments, which is considered to be other than temporary, and which management bases on an evaluation of all the relevant aspects after giving appropriate weight to each of them, is charged to the statement of operations.

I. Allowance for doubtful debts

The financial statements include allowances for doubtful debts, which management believes fairly reflect the loss inherent in accounts whose collection is doubtful. Management determines the allowances based on information it has on the financial status of debtors, the volume of their activity and a valuation of the collateral received from them.

The allowance is determined specifically for accounts whose collection is doubtful.

J. Sale of trade receivables

The sale of financial assets is recognized as a sale when full control over the asset has been transferred to the extent that the risks and rewards related to the asset are transferred in full to an independent third party.

K. Inventories

Inventories are valued at the lower of cost or net usage value. Cost is determined as follows:

Raw materials, ancillary materials and spare parts - at "moving average" or by the "first-in, first-out" method.

Finished goods and goods in process-based on manufacturing costs (including materials, labor and subcontractor costs) plus allocated indirect manufacturing and other expenses.

Merchandise - by the "first-in, first-out" or the "moving average" method.

Also see Note 2AC(2) below regarding first-time application of Accounting Standard No. 26 – "Inventory".

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**L. Holdings of a venture capital fund in venture capital investments**

1. The holdings of a venture capital fund in venture capital investments are stated at cost (at their reported amounts), net of impairment provisions, if a non-temporary decline in their value occurs. Gains from venture capital investments are charged to the statement of operations when the investment is realized. Also see Note 2H(3) above.
2. Venture capital investments that management intends to realize in the short-term are included in current assets on the basis of cost, net of impairment provision, which does not exceed the market value of the investment.

M. Investments in affiliates

1. The investments in affiliates are presented by the equity method. Until December 31, 2005, taken into account in the calculation was the Company's share in losses due to the expected realization of convertible securities that were issued by investees, if the conversion or realization of these securities is probably ("provision for expected loss").

Commencing January 1, 2006, the Company applies Accounting Standard No. 22 "Financial Instruments" Disclosure and Presentation". In accordance with the Standard's transitional provisions, the provision for expected loss of NIS 62,552 thousand, which was included in the Company's books as at December 31, 2005, was reversed on the effective date of the Standard. Reversal of the provision was charged to the statement of operations on January 1, 2006 to "cumulative effect as at the beginning of the year of change in accounting method". During 2006, the Company posted losses from the conversion of convertible securities in investees of NIS 50,828 thousand. Therefore, the net effect of the first-time application of the Standard on the Company totaled NIS 11,724 thousand.

Taken into account in determining the equity value of investments in these companies are the amounts appearing in the financial statements of those companies, after the adjustments required by application of generally accepted accounting principles.

2. Regarding goodwill amortization policy – see Note 2E(6) above.
3. Regarding the decline in value of investments in affiliates – see Note 2AB.
4. An affiliate sustained losses exceeding its shareholders' equity. The Company records its share in the affiliate's loss up to the Company's investment in the affiliate, including guarantees or subordinated loans granted to the affiliate.

N. Monetary balances stated at present value

Monetary balances – long-term debts and liabilities - that are interest free or bear interest at below-market rates, are stated at their present value, computed using the interest rate prevailing in the market on the date created.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**O. Fixed assets, net**

1. Fixed assets are stated at cost, net of accumulated depreciation and net of impairment losses, if any. Costs include expenses that can be allocated directly to the asset's purchase. The cost of assets built independently include the cost of materials and direct wages, as well as any other cost that can be allocated directly to bringing the asset to the location and condition necessary for it to operate as management intended.
2. Upon initial recognition of a fixed asset item, the Company estimates and adds as part of the item's cost the costs it incurs for the obligations to dismantle and transfer the item and to restore the location to its present value. Changes in such obligation, except for changes deriving from the passage of time, will be added or deducted from the asset's cost in the period in which they occur. The amount to be deducted from the asset's cost will not exceed its book value. The excess of the decrease in the obligation over the book value of the asset will be recognized immediately in the statement of operations.
3. Financing expenses on loans and credit used to finance the construction or purchase of fixed assets, and other costs related to the purchase or construction of the fixed assets, are capitalized to the cost of these assets, in accordance with Accounting Standard No. 3 on the Capitalization of Finance Costs.
4. The cost of assets for which an investment grant was received is stated net of the grant amount.
5. Improvements and renovations are charged to the cost of assets, whereas repair and maintenance expenses are charged to the statement of operations as incurred.
6. The Company depreciates separately any part of fixed assets with significant cost relative to the total cost of the item, including the cost of significant periodic evaluation.

Depreciation is calculated by the straight-line method over the estimated useful life of the assets.

The annual depreciation rates used are as follows:

	<u>%</u>	
Buildings and leasehold rights	2-10	(mainly 2%)
Machinery, equipment and facilities	5-20	(mainly 10%)
Vehicles and hoisting equipment	10-20	(mainly 15%)
Office furniture and equipment	6-33	(mainly 6% and 25%)
Computers and auxiliary equipment	20-33	
Leasehold improvements	10*	

* Leasehold improvements are depreciated over the rental period, which does not exceed the economic life of the asset.

Also see Note 2AD(1) below on first-time application of Accounting Standard No. 27 – "Fixed Assets"

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)

O. Fixed assets, net (cont'd)

Investment real estate

See Note 2AC(4) below regarding first-time application of Accounting Standard No. 16 on investment real estate.

P. Other assets and deferred expenses

Other assets are amortized on a straight-line basis over the expected period of benefit therefrom:

Intangible assets for development projects are amortized mainly over 3 years.

Intangible assets for patent usage rights are amortized over 5 years.

The amortization period is examined when signs are identified indicating a possible defect in the estimated period of benefit from the assets.

Also see Note 2AC(5) below regarding the first-time application of Accounting Standard No. 30 – "Intangible Assets".

Q. Issuance of securities

1. Issuance of bundled securities -

Proceeds from the issuance of bundled securities were allocated to the component securities according to their relative fair values. Fair value of the components is based on the market prices of the securities proximate to their issuance.

Issue costs were allocated to the securities according to the relative fair values of the securities issued.

2. Issuance of stock options -

Amounts received from warrants to purchase the Company's shares that grant the holder the right to purchase a fixed number of shares of the Company in consideration for a fixed amount in cash, are presented within shareholders' equity. In this context, until December 31, 2007, consideration that is linked to the CPI or exchange rate of foreign currency was deemed to be a fixed cash amount, as in Standard No. 22 – "Financial Instruments: Disclosure and Presentation".

3. Debenture issue costs -

Debenture issue costs are presented as an offset from the debentures and are amortized in accordance with the effective interest rate method during the debenture period. Issue costs allocated to the equity component of bundled securities are offset from the equity component.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**Q. Issuance of securities (cont'd)**4. Share-Based Payments -

As from January 1, 2006, the Company implements Accounting Standard No. 24, "Share-Based Payments" (hereinafter – the Standard) of the IASB. In accordance with the provisions of the Standard, the Company recognizes share-based payment transactions in the financial statements, including transactions with employees or other parties that are settled by equity instruments, cash or other assets. Share-based payment transactions in which goods or services are received are recognized at their fair value.

With respect to transactions settled by equity instruments, the Standard applies to grants executed after March 15, 2005 that had not yet vested by January 1, 2006. Similarly, the Standard applies to changes in the terms of share-based payment transactions being settled by means of equity instruments that were executed after March 15, 2005, even if the changes in terms relate to grants that were executed before that date.

The Company records compensation expenses, with a corresponding increase in shareholders' equity, for the benefit created when options are granted to employees, based on the fair value of the options when granted, using the Black & Scholes model. In this method, the benefit created is spread over the vesting period of the options, based on the Company's estimation of the number of options expected to vest, aside from forfeitures resulting from non-compliance with market conditions.

R. Deferred taxes

As from January 1, 2005 the Company applies Accounting Standard No. 19, "Taxes on Income" ("the Standard"). The Standard was adopted as a cumulative effect of a change in accounting method. The transition to Accounting Standard No. 19 resulted in a one-time effect of a net decrease in net earnings of NIS 3 million derived mainly from an increase in liabilities for deferred taxes relating to property.

The Group companies allocate taxes in respect of temporary differences, which are differences in the value of assets and liabilities for tax purposes and their carrying value. Allocation of the taxes, as stated, is executed with respect to the differences relating to assets, the amortization of which is deductible for tax purposes.

The deferred tax balances (asset or liability) are calculated at the tax rates expected to be in force when the deferred tax liability is utilized, or when the deferred tax asset is realized, based on the tax rates and the tax laws that were enacted or essentially enacted by the balance sheet date.

In calculating deferred taxes, no account was taken of the taxes that would apply in a case of sale of the investments in the investee companies, since it is the intention of the Company to hold these investments and not to sell them.

Deferred taxes were not created for taxes to be imposed on earnings distributed by subsidiaries, as it is the Group's policy not to distribute taxable dividends in the foreseeable future.

Likewise, tax benefits are not included in respect of temporary differences, the realization of which is doubtful.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**S. Revenue recognition**1. Sale of products and providing services

Revenues from sales and services are recognized upon delivery or shipment of the products and transfer of the risks and rewards involved in ownership of the products, or upon performance of the services.

2. Interest and dividend income

Interest income in respect of debentures and loans is recorded in the statement of operations on an accrual basis according to the effective interest method. Dividend income is recorded in the statement of operations on the dividend's date of record.

3. Sales on credit

Revenues from sales on credit that include a financing transaction are recorded according to their present value, and the difference between the present value of the transaction and the proceeds will be recognized in the statement of operations as interest income, according to the effective interest method.

4. Reporting of revenues on a gross basis or a net basis

The Company implements Clarification 8 of the IASB, "Reporting of Revenues on a Gross Basis or on a Net Basis" in determining whether to report revenues on a gross basis (as a primary vendor) or on a net basis ("the Clarification"). According to the Clarification, an entity that acts as an agent or broker without bearing the risks and rewards of the transaction is required to present its revenues on a net basis. Contrarily, an entity that acts as a primary vendor and bears the risks and rewards of the transaction is required to present its revenues on a gross basis. Clarification 8 prescribes a number of indicators that the Company considers in determining whether to present its revenues on a gross basis or a net basis.

T. Research and development expenses:

Research and development costs, net of participations (mainly from the Government of Israel), are charged to the statement of operations as incurred. Research and development costs financed by the customer are charged to the cost of projects in progress, and are included in the statement of operations as part of the recognition of results from such projects.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**U. Presentation of transactions between a corporation and the controlling shareholder**

Until December 31, 2006, transactions between the Company and its controlling shareholder were presented in accordance with the Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder), 1996. Accordingly, differences between the proceeds received from the sale of assets to a controlling shareholder and the book value of the assets to the Company is charged to the Company's shareholders' equity. Assets that were purchased from the controlling shareholder were recorded in the financial statements at their carrying value in the books of the controlling shareholder on the date of transfer to the Group, and the difference against the amount paid for them, net of the related tax, is charged to shareholders' equity.

As from January 1, 2007, the Company applies Accounting Standard No. 23, "Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" ("the Standard") to transactions between an entity and its controlling shareholder that were effected after January 1, 2007, and to loans that were given to or received from the controlling shareholder before the Standard's effective date, as from the effective date. This Standard does not apply to business combinations under common ownership. The decision of the Securities Authority, commencing January 1, 2007, is that business combinations of entities controlled by the same controlling shareholder will be treated in a similar manner as a pooling and not by the fair value method.

Also see Note 2AC(3) below, regarding first-time application of the Standard.

V. Derivative financial instruments:

1. The results of financial derivatives held to hedge existing assets and liabilities are recorded in the statement of operations concurrently with the recording of the results of the hedged assets and liabilities.
2. The results of financial derivatives held to hedge firm commitments and anticipated transactions are deferred and included in the statement of operations on the date the results of the transactions for which the hedges were executed are charged
3. Financial derivatives that are not held for hedging are stated in the balance sheet at fair value. Changes in the fair value are included in the statement of operations in the period they occur.

The fair value of derivative financial instruments is determined according to their market values, stated quotes from financial institutions, and in the absence of such, fair value is determined based on valuation models.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**W. Earnings (loss) per share:**

The Company implements Accounting Standard No. 21, "Earnings per Share" (hereinafter – the Standard) of the Israel Accounting Standards Board. In accordance with the provisions of the Standard, the Company calculates basic earnings per share with respect to earnings or loss, and basic earnings per share with respect to earnings or loss from continuing operations, which is attributable to the ordinary shareholders. The basic earning per share is calculated by dividing the earnings or loss attributable to the ordinary shareholders with the weighted average number of ordinary shares outstanding during the period. In order to calculate the diluted earnings per share, the Company adjusts the earnings or loss attributable to the ordinary shareholders, and the weighted average number of outstanding ordinary shares, for the effects of all the dilutive potential ordinary shares (such as convertible debentures and options). The Company's share in the earnings of investee companies was calculated according to its share in the earnings per share of such investee companies multiplied by the number of shares held by the Company.

X. Dividend declared subsequent to balance sheet date

In accordance with Accounting Standard No. 7 on "Subsequent Events", the liability related to a dividend proposed or declared subsequent to the balance sheet date is expressed in the accounts only in the period in which it was declared. However, separate disclosure is provided in the statement of changes in shareholders' equity of the dividend amount to be distributed against a reduction in the retained earnings balance.

Y. Segment reporting

Segment reporting is presented in accordance with Accounting Standard No. 11. See also Note 25.

Z. Discontinued operations

Discontinued operations are presented in accordance with Accounting Standard No. 8, whereby discontinued operations are presented separately from the data relating to continuing operations. Also see Note 24.

Notes to the Financial Statements for the year ended December 31, 2007**Note 2 - Significant Accounting Policies (cont'd)****AA. Impairment of assets**

The Group applies Accounting Standard No. 15 – Impairment of Assets ("the Standard"), which prescribes procedures that the Group must implement in order to assure that its assets in the consolidated balance sheet (to which the Standard applies) are not stated at an amount exceeding their recoverable value, which is the higher of the net sales price or the usage value (the present value of the estimated future cash flows expected to derive from the use and realization of the asset).

The Standard applies to all of the assets in the consolidated balance sheet, except for inventory, tax assets and monetary assets (aside from monetary assets that are investments in investees that are not subsidiaries). Likewise, the Standard prescribes the presentation and disclosure principles for assets that have declined in value. When the carrying value of an asset in the consolidated balance sheet exceeds its recoverable amount, the Group recognizes an impairment loss equal to the difference between the book value of the asset and its recoverable value. A loss so recognized will be reversed only if changes have occurred in the estimates used in determining the recoverable value of the asset since the date on which the last impairment loss was recognized.

In September 2003 the Israel Accounting Standards Board published Clarification 1 regarding the accounting treatment of impairment in the value of an investee that is not a subsidiary. Clarification 1 stipulates that in reporting periods subsequent to the period in which the impairment was initially recorded, the investment in the investee will be presented according to the lower of its recoverable value and the investment account by the equity method, with the recoverable value calculated during each reporting period in which there are indications that a change has taken place in the recoverable value. Impairment losses from the investment in an investee that is not a subsidiary, which were recorded or reversed during the period, are presented as the Company's equity in operating results of affiliated companies, net.

In February 2005 the Israel Accounting Standards Board published Clarification 6 regarding the accounting treatment of impairment in the value of an investee that is not a subsidiary. Clarification 6 requires that the recoverable amount be determined for each of the cash-generating units or the identified assets of the affiliate for which there are indications of impairment or indications that an impairment loss that was recognized in prior years no longer exists or has decreased. The impairment or appreciation will be determined from the perspective of the holding company.

AB. Data regarding the CPI and the Dollar exchange rate:

		<u>Israeli CPI*</u>	<u>Exchange rate of one Dollar</u>
		<u>Points</u>	<u>NIS</u>
For the year ended:	December 2007	191.15	3.846
	December 2006	184.87	4.225
	December 2005	185.05	4.603
		<u>%</u>	<u>%</u>
Change in the year:	2007	3.4	(9.0)
	2006	(0.1)	(8.2)
	2005	2.4	6.8

(*) According to the CPI for the month of the balance sheet date (1993 average basis = 100).

Assets and liabilities in foreign currency or linked thereto are included in the financial statements according to the representative exchange rate published by the Bank of Israel on the balance sheet date.

Assets and liabilities linked to the CPI are included in the financial statements according to the CPI of the balance sheet month, or the previous month, as relevant.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**AC. Impact of new accounting standards prior to their application****1. Accounting Standard No. 27, "Fixed Assets"**

As from January 1, 2007, the Company applies Accounting Standard No. 27, "Fixed Assets" (hereinafter – the Standard). The Standard prescribes rules for the presentation, measurement and disposition of fixed assets and for the disclosure required in respect thereto.

The Standard stipulates, inter alia, that upon the initial recognition of a fixed asset, the entity shall include in the cost of the item all the costs it will incur in respect of a liability to dismantle and remove the item and to restore the site on which it was located. Furthermore, the Standard stipulates that a group of similar fixed asset items shall be measured at cost net of accumulated depreciation, and less impairment losses, or alternatively, at its revalued amount less accumulated depreciation, whereas an increase in the value of the asset to above its initial cost as a result of the revaluation will be directly included the shareholders' equity under a revaluation reserve. Additionally, any part of a fixed asset item with a cost that is significant in relation to the total cost of the item shall be depreciated separately, including the costs of significant periodic examinations. The Standard also stipulates that a fixed asset that was purchased in consideration for another non-monetary item in a transaction of commercial substance shall be measured at fair value.

The Standard also requires that the residual value, estimated life, uses and depreciation method of the asset be examined at least at the end of every year, and if there is a change in the estimates, compared with prior estimates, the changes should be treated as a change in accounting estimate.

The Company elected to measure the fixed asset item at cost less accumulated depreciation.

Implementation of the Standard will not have a material impact on the Company's financial position or results of operations.

2. Accounting Standard No. 26, "Inventory"

In August 2006 the IASB published Accounting Standard No. 26, "Inventory" (hereinafter – the Standard). The Standard stipulates guidelines for determining the cost of inventory and its subsequent recognition as an expense as well as for determining impairment in value of inventory to its net realizable value.

According to the Standard, inventory will be presented at the lower of cost or net realizable value. The Standard also provides guidelines regarding cost formulas used to allocate costs to various types of inventory.

The Standard will be applied retroactively by restating comparative amounts in respect of prior periods.

Implementation of the Standard did not have a material impact on the Company's financial position or results of operations.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**AC. Impact of new accounting standards prior to their application (cont'd)****4. Accounting Standard No. 23, "Accounting for Transactions Between an Entity and its Controlling Shareholder"**

As from January 1, 2007, the Company applies Accounting Standard No. 23, "Accounting for Transactions Between an Entity and its Controlling Shareholder" (hereinafter – the Standard). The Standard supersedes the main provisions of Israeli Securities Regulations (Presentation of Transactions Between a Company and its Controlling Shareholder), and provides that assets (excluding intangible assets that do not have an active market) and liabilities in respect of which a transaction has taken place between the entity and its controlling shareholder will be measured according to fair value on the transaction date, and the difference between the fair value and the consideration received in the transaction will be recorded within shareholders' equity. A debit difference is essentially a dividend and will therefore be recorded as a reduction of retained earnings. A credit amount is essentially an investment by the shareholder and will therefore be recorded as a separate item within shareholders' equity to be called "capital reserve from transactions between the entity and its controlling shareholder".

The Standard addresses three issues pertaining to transactions between an entity and its controlling shareholder: transfer of an asset from the controlling shareholder to the entity or transfer of an asset from the entity to the controlling shareholder; assumption, fully or partially, by the controlling shareholder of a liability that the entity has to a third party, indemnification from the controlling shareholder to the entity in respect of an expense, concession, fully or partially, by the controlling shareholder of an amount owed to him by the entity; and loans granted to or by the controlling shareholder. Furthermore, the Standard provides the disclosure required in financial statements pertaining to transactions between the entity and its controlling shareholder during the period.

In accordance with the transitional provisions of the Standard, the Company applies the Standard to transactions with its controlling shareholder executed after January 1, 2007, and to loans given by or received from the controlling shareholder prior to the effective date of this Standard, beginning from its effective date.

The first-time implementation of the Standard did not have a material impact on the Company's financial position or results of operations.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)**AC. Impact of new accounting standards prior to their application (cont'd)****4. Accounting Standard No. 16, "Investment Property"**

As from January 1, 2007, the Company applies Accounting Standard No. 16, "Investment Property" (hereinafter – the Standard). The Standard prescribes rules for recognition, measurement and disposition of investment property and for the disclosure required in respect thereto.

The Standard stipulates, inter-alia, that the initial measurement of investment property be according to cost, including transaction costs. Furthermore the Standard stipulates that in subsequent periods the entity should choose to measure all of its investment property, either according to cost, after deduction of accumulated depreciation and impairment losses, or according to fair value, in which case adjustments to fair value shall be recorded in the statement of operations.

The Company elected to apply the fair value model for measuring its investment property. Therefore, in accordance with the transition requirements of the Standard, on January 1, 2007 the Company recognized an increase in the balance of its investment property in the amount of NIS 28 million and an increase in investments in affiliates in the amount of NIS 32 million. The Company recorded an increase to the opening balance of retained earnings as at January 1, 2007 of NIS 52 million in respect of the above.

5. Accounting Standard No. 30, "Intangible Assets"

As from January 1, 2007, the Company applies Accounting Standard No. 30, "Intangible Assets" (hereinafter - "the Standard"), which provides the accounting treatment for intangible assets and specifies how to measure the book value of these assets, while prescribing the required disclosures therefor.

In accordance with the Standard's transitional provisions, the Standard will be applied retroactively, except as provided below. Regarding business combinations, the Standard will be applied for business combinations that occurred on or after January 1, 2007, whereas for in-process research and development projects that were acquired as part of a business combination that occurred before January 1, 2007, and meets the definition of an intangible asset on the acquisition date and was expensed on the acquisition date, the Company will recognize the in-process research and development project on January 1, 2007, while allocating taxes.

A research and development asset will be recognized at the revalued amount on the acquisition date net of amortization that would have been accumulated if it had been amortized from the acquisition date to December 31, 2006, based on the useful life of the asset, and net of accrued impairment losses. The adjustment amount will be charged to retained earnings as at January 1, 2007.

In prior years, the Company charged expenses totaling NIS 2,443 thousand for an in-process research and development project, which was acquired as part of a business combination that occurred before January 1, 2007. The project fulfills the definition of an intangible asset and as such, on January 1, 2007, the Company recognized the in-process research and development project as an asset totaling NIS 1,728 thousand (after allocation of deferred taxes and methodical amortization), against a correction of the retained earnings balance at such date.

Notes to the Financial Statements for the year ended December 31, 2007

Note 2 - Significant Accounting Policies (cont'd)

AC. Impact of new accounting standards prior to their application (cont'd)

5. Accounting Standard No. 30, "Intangible Assets" (cont'd)

As from January 1, 2007, some of the Company's investees are examining the conditions for recording intangible assets for development projects of intangible assets. These investees did not recognize intangible assets for past development projects, because they did not examine or document the compliance with the relevant conditions in the past.

**AD. Disclosure of effect of new Accounting Standards in the period prior to their application
Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)"**

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS) (hereinafter – "the Standard)". The Standard provides that entities that are subject to the Israeli Securities Law, 1968 and that are required to report in accordance with this Law's provisions, shall prepare their financial statements pursuant to IFRS Standards for periods commencing January 1, 2008. The Standard permits early adoption beginning with financial statements published after July 31, 2006.

Initial adoption of IFRS Standards is to be effected by means of application of the provisions of IFRS 1, "First-Time Application of IFRS Standards", for purposes of the transition.

In accordance with the Standard, the Company is required to include in a note to the annual financial statements as at December 31, 2007, the balance-sheet data as at December 31, 2007 and the statement of operations data for the year then ended, after they have undergone application of the recognition, measurement and presentation rules of IFRS Standards (see Note 29).

The Company will apply the IFRS Standards as from the financial statements for the period commencing January 1, 2008.

Notes to the Financial Statements for the year ended December 31, 2007**Note 3 - Information Regarding Certain Investees****A. Makhteshim Agan Industries Ltd. ("M-A Industries") – an affiliate**

1. In February 2005, Koor sold 15.9 million shares of M-A Industries for NIS 374 million. As a result of the sale, Koor's holding percentage in M-A Industries fell to 34.6% and Koor recorded a capital gain amounting to NIS 201 million (before tax), which was included in the item "other income net". Likewise, a tax asset of NIS 69 million which had been created in 2004, because of the expectation that carryforward tax losses would be utilized, was realized as a result of this sale.
2. During 2006, Koor purchased 35,297,993 shares of M-A Industries for an aggregate amount of NIS 818 million.
3. Subsequent to the acquisition of shares of M-A Industries by Koor and by M-A Industries, Koor's stake in M-A Industries increased in 2006 by 10.1%, and excess cost over book value totaling \$112.8 million was created ("excess cost"). The Company retained an independent valuation expert to prepare a valuation of M-A Industries for purposes of allocating the said excess cost in accordance with Accounting Standard No. 20. In order to allocate the excess cost created on various dates, the Company received valuations of the tangible assets and liabilities, as well as the intangible assets of M-A Industries as at January 1, 2006, June 30, 2006 and August 18, 2006.

The independent valuation expert valued the tangible assets and liabilities, as well as the intangible assets of M-A Industries, as follows:

	<u>January 1 2006</u>	<u>June 30 2006</u>	<u>August 18 2006</u>
	<u>\$ millions</u>		
Current assets	1,184.6	1,320.6	1,305.3
Investments	22.7	26.6	42.0
Fixed assets and other assets, net	465.1	491.7	498.3
Short-term and long-term liabilities	(994.6)	(1,177.2)	(1,172.1)
Intangible assets			
Product licensing	310.5	320.0	315.6
Customer relationship	513.6	513.3	460.3
Trademark	224.2	229.9	228.6
Product portfolio	94.7	94.4	89.3
In-process research and development	5.2	5.5	5.5
	<u>1,826.0</u>	<u>1,824.8</u>	<u>1,772.8</u>

Notes to the Financial Statements for the year ended December 31, 2007**Note 3 - Information Regarding Certain Investees (cont'd)****A. Makhteshim Agan Industries Ltd. ("M-A Industries") – an affiliate (cont'd)**

According to the purchase price allocation, the Company has allocated the excess cost to M-A Industries' tangible and intangible assets, as follows:

	<u>\$ millions</u>	<u>Amortization method</u>	<u>Amortization period</u>
Inventory	7.4		6 months
Intangible assets :			
Product licensing	8.8	Over the period of future economic benefits	7 years
Customer relationship	29.2	Over the period of future economic benefits	15 years
Trademark	23.1	Over the period of future economic benefits	5 years
Product portfolio	9.2	Over the period of future economic benefits	15 years
In-process research and development	0.5	Upon acquisition	
Deferred taxes	(12.5)	According to the amortization of the related assets	
Goodwill	<u>47.1</u>		
	<u><u>112.8</u></u>		

4. The board of directors of M-A Industries resolved on March 12, 2007 to revoke a previous resolution from March 2006 regarding the payment of a dividend as a fixed percentage of net earnings, and resolved that the board of directors would from time to time evaluate the possibility of distributing dividends and their amounts, based on the investment policy and needs of M-A Industries and the existence of sufficient distributable earnings. On March 11, 2008, the board of directors of M-A Industries approved a dividend distribution of \$120 million. Koor's share will amount to \$46 million.
5. On August 28, 2007, the Board of Directors of M-A Industries resolved to adopt an employee stock option plan for its employees and employees of its subsidiaries. Under the plan, on October 15, 2007, 3,130,000 options exercisable into 3,130,000 ordinary shares NIS 1 par value of M-A Industries were issued. The fair value of the capital instruments as at the grant date was approximately \$5.7 million.

As at December 31, 2007, there are several option plans that were issued to employees. The total options in circulation as at this date amount to 16,859,359 options, exercisable for 16,859,359 shares, representing 3.8% of the capital of M-A industries.

Notes to the Financial Statements for the year ended December 31, 2007

Note 3 - Information Regarding Certain Investees (cont'd)**A. Makhteshim Agan Industries Ltd. ("M-A Industries") – an affiliate (cont'd)**

6. During 2007, approximately \$ 675 thousand par value of M-A Industries debentures issued in a private placement in March 2004 to institutional investors, were converted into approximately 149 thousand ordinary shares NIS 1 par value of M-A Industries. Furthermore, NIS 48,998 thousand par value of debentures (Series A) of M-A Industries were converted into 5,384 thousand ordinary shares, NIS 1 par value, of M-A Industries and approximately 4,809 thousand employee stock options were exercised for approximately 2,831 thousand ordinary shares NIS 1 par value of M-A Industries. As a result, during the said period, the Company recorded a loss of approximately NIS 32 million, which is included within "the Koor Group's equity in the operating results of affiliate companies, net".
7. During the third quarter of 2007, the Company acquired 750,000 ordinary shares, NIS 1 par value, of M-A Industries for NIS 24 million. The excess cost created in the acquisition totaled NIS 15 million.
Koor's holdings in the voting rights of M-A Industries as at December 31, 2007 is 39.03% (as at December 31, 2006 – 39.6%).
8. Subsequent to the balance sheet date, the Company acquired 4,119,093 ordinary shares, NIS 1 par value of M-A Industries (0.9% of shares) for NIS 126 million.

9. Reorganization Plan

On March 12, 2007, the Board of Directors of M-A Industries approved commencement of a reorganization plan for M-A Industries ("the Plan"). The Plan, which was based on recommendations of internal teams assisted by the McKinsey research and consulting firm, which was hired by M-A Industries to study the existing organizational structure and to formulate a comprehensive plan of recommendations to change the organizational structure and mode of operation of the M-A Industries Group.

Until the report date, the implementation of the Plan did not involve material costs or significant employee layoffs for the M-A Industries Group, and in the estimation of M-A Industries' management, no other such significant changes or material costs are expected in the foreseeable future. Likewise, M-A industries estimates that the full implementation of the Plan is expected to be completed in 2009.

10. Seasonality

Sales of crop protection products are directly dependent on the agricultural seasons and the cycle of crop production. Therefore, M-A Industries' revenues are not distributed evenly throughout the year. Countries in the Northern Hemisphere are characterized by similar timing of the agricultural seasons and the highest sales to these countries usually take place during the months February-April. The seasonality in the Southern Hemisphere is opposite and most of the sales take place during the months August-November, with the exception of Australia where most of the sales take place in April-July.

M-A Industries' worldwide activities are conducive to balancing the seasonality impact even though M-A Industries has higher sales in the Northern Hemisphere.

Note 3 - Information Regarding Certain Investees (cont'd)

Notes to the Financial Statements for the year ended December 31, 2007**B. ECI Telecom Ltd. ("ECI") – a former affiliate**

1. On September 28, 2007, ECI, in which the Company had a holding of approximately 28%, reported that it closed the merger agreement signed on July 2, 2007, whereby ECI was sold in its entirety to Swarth Group and certain investment funds (hereinafter – the Buyers) in a transaction amounting to approximately \$1.2 billion.

The Company received in consideration of its holdings in ECI's shares, an amount of approximately \$330.5 million in cash. Subsequent to the closing, the Company recorded a capital gain of NIS 514 million in the third quarter of 2007, based on ECI's results for the third quarter of 2007.

2. In April 2007, ECI's investee Veraz Networks Inc. ("Veraz") issued its shares and was listed for trading on the NASDAQ. Within the framework of the offering, ECI sold Veraz shares for \$18 million. As a result of the offering and sale, ECI recorded a gain of \$40 million (including the tax effect), and Koor's share in the gain is NIS 46 million.

C. Telrad Networks Ltd. ("Telrad") – an affiliate

1. Until the end of the second quarter of 2005, the results of Telrad were consolidated by the proportionate consolidation method, due to the rights given to the minority shareholders, whereby mutual consent of the Koor Group and the minority shareholders is required for significant decisions related to Telrad's ordinary course of business. These rights remain intact, however, due to the joining of two additional shareholders, who are not entitled to these rights, the proportionate consolidation of Telrad in the Koor financial statements was discontinued as from the end of the second quarter of 2005 and the investment in Telrad is included by the equity method.

Below are the operating results data of Telrad as included in Koor's financial statements:

	For the six months ended June 30 2005
	(Audited)
	NIS thousands
Revenues	177,631
Operating costs and expenses	201,179

2. In 2006, Telrad's board of directors approved a reorganization plan that included employee layoffs. Koor's share in these employee retirement expenses in the amount of NIS 38 million are included in the financial statements for 2006 in "the Koor Group's equity in the operating results of affiliate companies, net". The financial statements for 2005 include retirement expenses of NIS 38 million.
3. In November 2005, the board of directors of Telrad resolved to sell the subsidiary Telrad Conneqy Communication Inc. Therefore, Telrad Conneqy was classified as a discontinued operation in Telrad's financial statements and Telrad recorded a loss in the amount of NIS 58 million. Koor's share in this loss was NIS 35 million included in "the Koor Group's equity in the operating results of investee companies, net".

Notes to the Financial Statements for the year ended December 31, 2007

Note 3 - Information Regarding Certain Investees (cont'd)**D. Defense Electronics Segment**

1. During 2005 Koor sold to Elbit Systems Ltd. ("Elbit") its entire holdings in Tadiran Communications for \$146 million and recorded a capital gain of NIS 72 million. Concurrently, Koor acquired 7.7% of Elbit's share capital from Federmann Enterprises for \$77.7 million.

The abovementioned agreements granted Koor the right to appoint 20% of the members of Elbit's board of directors. Koor announced that as long as it holds Elbit shares it will not invoke its right to appoint 20% of the Elbit directors and therefore Koor's investment in Elbit was stated by the cost method.

On November 30, 2005, the sale of the Elisra shares (70%) to Elbit was closed for \$70 million. The said sale generated a capital gain to Koor of NIS 148 million in respect of the sale of Elisra, which was recorded in the statement of operations in the fourth quarter of 2005. As a result of the sale, the financial statements were reclassified, such that the operating results of Elisra and the capital gains generated from its sale were reported as discontinued operations.

2. On November 22, 2006, the Company entered into an agreement for the sale of 5.5% in Elbit to Federmann for \$70 million in several installments. The first installment of \$14 million was received on November 27, 2006. The Company recorded a capital gain as a result of the transaction of approximately NIS 12 million in 2006.
During 2007, the balance of the consideration (approximately \$58 million including interest) was transferred to the Company and the Company transferred the balance of its holdings in Elbit (3.3% of Elbit's share capital) that were held by a trustee. As a result of the transaction, a capital gain of NIS 37 million was recorded in 2007.

On December 5, 2006 the Company sold the remainder of its shares in Elbit Systems Ltd. (which had not been sold to Federmann in the transaction described previously) for total consideration of approximately NIS 112 million. The Company recorded capital gains of approximately NIS 24 million during the fourth quarter of 2006 in respect of the sale.

E. Tourism Segment

1. Knafaim Holdings Ltd. ("Knafaim") – former affiliate

Further to the agreement signed in May 2007, on September 18, the Company completed the sale of its entire holding in Knafaim (9.2%) for \$13.7 million, reflecting a price per share of \$10.47 ("purchase price"). Under the agreement, should the purchaser sell the shares purchased at the closing date, to any third party, during a period of 12 months commencing from the closing date, at a price per share higher than the purchase price, the purchaser will pay the Company additional consideration in the amount of the difference between the sale price and the purchase price, net of interest accrued, multiplied by the lower of the number of shares sold or the number of shares purchased from the Company.

The Company recorded a gain from the transaction of approximately NIS 15 million.

Notes to the Financial Statements for the year ended December 31, 2007

Note 3 - Information Regarding Certain Investees (cont'd)**E. Tourism Segment****2. Sheraton-Moriah (Israel) Ltd. ("Sheraton-Moriah") – a former subsidiary**

On December 17, 2006 the Company signed an agreement for the sale of its entire holding in Sheraton-Moriah to Azorim Tourism Ltd. ("Azorim"), for total consideration of \$23.8 million. The sale was linked with the sale by a related party, Clal Tourism Ltd. ("Clal Tourism") to Azorim of its entire holdings (100%) in its subsidiaries Accor-Clal Israel Hotels (1995) Ltd. and Accor-Clal Israel Hotel Management Company Ltd., together with outstanding shareholders' loans (amounting to approx. \$16.7 million) and capital notes, for total consideration of \$44.2 million. Clal Tourism is wholly owned by IDB Development Corporation Ltd. ("IDBD"), which is the Company's ultimate parent, holding directly and through Discount Investment Corporation Ltd. approximately 56.6% of the Company's outstanding shares. On April 26, 2007 the transaction closed.

The first installment in the amount of \$6.3 million was received on December 21, 2006, and the second in the amount of approximately \$8.6 million was received on the date of the closing. The remaining amount of \$9.1 million, guaranteed by Azorim Investment in Development and Building Corporation Ltd., is to be received no later than March 27, 2008, as follows: (a) One half of the said amount shall be paid in NIS (in accordance with the last representative dollar exchange rate known on the date of payment); and (b) The other half shall be paid in NIS (in accordance with the representative dollar exchange rate known on the date of execution of the agreement), linked to the rate of change of the Israeli Consumer Price Index (CPI) known on March 27, 2008 relative to the CPI known on the date of execution of the agreement (Basic Index), and such that the said amount shall, in no event, be lower than the amount calculated according to the Basic Index.

Upon the closing of the transaction, the Company was released from guaranties provided to banks to secure bank debt of Sheraton Moriah in the amount of approximately \$9.2 million. The Company recorded a gain as a result of the transaction of approximately NIS 14 million in of 2007.

Pursuant to the sale, Sheraton-Moriah has been presented as a discontinued operation. See Note 24(4).

Notes to the Financial Statements for the year ended December 31, 2007

Note 3 - Information Regarding Certain Investees (cont'd)**F. Koor Corporate Venture Capital ("Koor CVC") – a consolidated partnership**

1. In the current period, Koor CVC's management decided to write-down the value of the investments by NIS 12 million (in 2005 – NIS 68 million).
2. In December 2005, one of Koor CVC's portfolio investments, Scopus, Video Networks Ltd. raised approximately \$31 million in an IPO. As a result, Koor CVC recorded a gain of approximately NIS 31 million.

On January 11, 2007, the Company sold all shares held by Koor and Koor Corporate Venture Capital in Scopus Video Networks Ltd. The Company's total proceeds from the transaction amounted to approximately \$16 million in cash. As a result of this transaction, the Company recorded a gain of approximately NIS 23 million in the first quarter of 2007.

3. On November 27, 2006, the merger between one of Koor CVC's portfolio companies, Followap Inc. and NeuStar Inc. was closed. As a result of the merger, Koor CVC received consideration of approximately \$12 million in January 2007 and recorded a gain of approximately NIS 23 million.

G. Epsilon Investment House Ltd. – an affiliate

In January 2006, Koor signed an agreement for the acquisition of 50% of the issued and paid share capital, of Epsilon Investment House Ltd. ("Epsilon"). Epsilon is engaged in providing a wide range of financial services including portfolio management, mutual funds' management, underwriting, provident fund management and consulting in mergers and acquisitions.

The transaction closed on April 11, 2006 after receipt of approvals under all applicable laws, including the approval of the Israeli capital market commissioner.

According to the agreement, Koor was allocated new shares, and also purchased shares from certain of the existing shareholders of Epsilon, for total consideration of NIS 106 million.

As a result of the acquisition of Epsilon's shares, excess cost in the amount of NIS 75 million was created. Of the excess cost of the investment, NIS 10 million was allocated to intangible assets (trademark and customer base) and NIS 65 million was allocated to goodwill.

The Company's investment in Epsilon is accounted for according to the equity method, as there is no joint control agreement, as defined by Israeli Accounting Standards, between all of Epsilon's shareholders.

H. ECTel Ltd. - an affiliate

Pursuant to a resolution of ECI's Board of Directors approved in June 2006, ECI distributed 2.9 million shares of ECTel Ltd. ("ECTel") to ECI's shareholders of record as at June 29, 2006. These shares constituted approximately 15.9% of ECTel's outstanding shares. Koor received 815,660 ECTel shares in this distribution.

These shares, together with the ECTel shares held by Koor on this date, provide the Company with significant influence over ECTel and accordingly the Company's investment in ECTel is accounted for according to the equity method as at the third quarter of 2006.

As at December 31, 2007, Koor holds 21% of the shares of ECTel.

Notes to the Financial Statements for the year ended December 31, 2007

Note 4 - Short-Term Deposits and Investments

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Marketable securities (1):				
Debentures	183,638	190,964	183,638	178,015
Treasury notes	163,350	167,385	163,350	167,385
Shares and options	94,937	313,402	94,937	311,885
	441,925	671,751	441,925	657,285
Deposits in banks and financial institutions	15,665	24,180	-	-
	457,590	695,931	441,925	657,285

Note 5 - Trade Receivables

Consolidated:

	December 31	
	2007	2006
	NIS thousands	
Open accounts	41,567	33,187
Net of allowance for doubtful debts	(1,331)	(177)
	40,236	33,010

Notes to the Financial Statements for the year ended December 31, 2007

Note 6 - Other Receivables

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Receivable in respect of sold investments *	5,240	56,235	-	-
Government agencies	36,797	-	36,797	-
Deferred taxes	2,981	2,796	53	1,046
Accrued income	2,385	241	-	-
Prepaid expenses	7,198	751	6,643	246
Employees	1,919	3,050	-	-
Affiliates - current accounts	31	30	-	-
Receivables for forward transactions	876	572	876	572
Others	7,883	-	7,883	-
	788	846	302	646
	66,098	64,521	52,554	2,510

Note 7 - Inventories

Consolidated:

	December 31	
	2007	2006
	NIS thousands	
Raw and auxiliary materials	45,990	50,793
Goods and work in progress	6,480	4,036
Finished goods	5,158	7,490
	57,628	62,319

Notes to the Financial Statements for the year ended December 31, 2007

Note 8 - Investments in Investee companies

A. Consolidated balance sheet - affiliates

	December 31	
	2007	2006
	NIS thousands	
Net asset value of the investments (1)(2)	2,054,463	*2,698,477
Goodwill and excess cost:		
Original amount	617,502	658,203
Less - accumulated amortization	(145,278)	(117,212)
	472,224	540,991
Total investment in share capital	2,526,687	*3,239,468
Long-term loans (3)	83,688	82,709
	2,610,375	3,322,177
(1) As follows:		
Net asset value of investments as at January 1	2,698,477	*2,513,691
Adjustment of opening balance for investment real estate and in-process research and development	33,842	-
Changes during the year:		
Cost of shares acquired or received	9,056	458,906
Accumulated earnings (losses), net	337,992	*(53,794)
Changes in capital reserves and foreign currency translation adjustments	(223,581)	(215,495)
Disposals	(801,323)	*(4,831)
	2,054,463	*2,698,477
(2) Including investments in companies traded on a stock exchange in Tel Aviv or abroad, in NIS millions:		
Carrying value in the balance sheet	2,414	3,173
Market value as at balance sheet date	6,166	5,372

* Restated for discontinued operations – See Note 24(4).

	Interest rate as at December 31	December 31	
		2007	2006
		%	\$ millions
(3) Linkage terms and interest rates relating to long-term loans:			
Linked to the CPI - without maturity date	4.5	29,600	26,707
Linked to the Dollar	LIBOR* + 2	54,088	56,002
		83,688	82,709

* As at December 31, 2007, the LIBOR rate is 4.7%.

Notes to the Financial Statements for the year ended December 31, 2007

Note 8 - Investments in Investee companies (cont'd)

B. Company balance sheet - investees

	December 31	
	2007	2006
	NIS thousands	
Presented as:		
Investments in affiliates	2,780,963	2,579,219
Excess of accumulated losses over original cost	(79,451)	(56,583)
	<u>2,701,512</u>	<u>2,522,636</u>
Net asset value of the investments	<u>2,162,854</u>	1,983,869
Goodwill and excess cost:		
Original amount, net	437,935	467,316
Less - accumulated amortization	(43,571)	(26,078)
	<u>394,364</u>	<u>441,238</u>
Book value (1)	<u>2,557,218</u>	2,425,107
Payments on account of shares (1)	58,830	58,830
Long-term loans and capital notes (2)	83,303	36,477
Non-current accounts (3)	<u>2,161</u>	<u>2,222</u>
	<u>2,701,512</u>	<u>2,522,636</u>

(1) As follows:

	December 31	
	2007	2006
	NIS thousands	
Cost of shares including accumulated earnings as at January 1	2,483,937	1,671,514
Adjustment of opening balance for investment real estate and in-process research and development	35,899	-
Changes during the year:		
Cost of acquired shares	24,063	1,628,617
Accumulated earnings (losses), net	545,162	(550,813)
Changes in capital reserves and erosion of capital notes	(258,715)	(235,386)
Disposals	(214,298)	(29,995)
Book value, including payments on account of shares (4)	<u>2,616,048</u>	<u>2,483,937</u>

Notes to the Financial Statements for the year ended December 31, 2007

Note 8 - Investments in Investee companies (cont'd)

B. Company balance sheet – investees (cont'd)

(2) Long-term loans and capital notes:

	December 31	
	2007	2006
	NIS thousands	
Long-term loans (a) (b)	50,861	21,177
Capital notes - unlinked and not bearing interest (c)	32,442	15,300
	<u>83,303</u>	<u>36,477</u>

(a) Long-term loans classified by linkage terms and interest rates:

	Interest rate as at December 31	December 31	
	2007	2007	2006
	%	\$ millions	
Linked to the Dollar	-	-	13,952
Linked to the CPI	5	41,486	-
Linked to the CPI	-	9,375	7,225
		<u>50,861</u>	<u>21,177</u>

(b) The loans mature in the years subsequent to the balance sheet date (excluding current maturities) as follows:

	December 31	
	2007	2006
	NIS thousands	
Second year	41,486	-
Third year	-	-
Fourth year	-	-
Fifth year	-	-
Sixth year and thereafter	9,375	21,177
	<u>50,861</u>	<u>21,177</u>

(3) Non-current inter-company accounts:

	December 31	
	2007	2006
	NIS thousands	
Linked to the Dollar	173	154
Unlinked-bears interest at the rate of the increase in the CPI	1,988	2,068
	<u>2,161</u>	<u>2,222</u>

Notes to the Financial Statements for the year ended December 31, 2007

Note 8 - Investments in Investee companies (cont'd)

B. Company balance sheet – investees (cont'd)

- (4) Including investments in marketable shares traded on the Tel Aviv Stock Exchange or abroad in NIS millions:

	December 31	
	2007	2006
	NIS thousands	
Carrying value in balance sheet	752	748
Market value as at balance date	1,312	833

Note 9 - Other Investments and Receivables

A. Composition:

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Debentures held-to-maturity	7,692	9,213	7,692	9,213
Deposits in banks and in financial institutions	3,938	7,705	-	-
Total (see B and C below)	11,630	16,918	7,692	9,213
Other companies – investment in marketable securities (*)	-	46,927	-	46,927
Venture capital investments	86,002	108,984	-	-
Investment in secondary fund	30,262	6,455	30,262	6,455
Excess of amounts funded over amounts accrued for severance pay (see Note 18)	625	-	625	-
Other	193	204	193	204
	128,712	179,488	38,772	62,799
(*) Stock market value as at balance sheet date	128,712	179,488	38,772	62,799

Notes to the Financial Statements for the year ended December 31, 2007

Note 9 - Other Investments and Receivables (cont'd)

B. Classification by linkage terms and interest rates of deposits and debentures:

Consolidated:

	Interest rate as at December 31 2007 %	December 31	
		2007	2006
		\$ millions	
Linked to foreign currency (mainly to the dollar)	Mainly 4.95	3,938	7,705
Linked to dollar, interest bearing	5.3 – 8.5	7,692	9,213
		11,630	16,918

C. Repayment schedule of deposits and debentures in the years subsequent to the balance sheet date:

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Second year	9,088	3,955	7,692	-
Third year	2,300	12,713	-	9,213
Fourth year	242	149	-	-
Fifth year and thereafter	-	101	-	-
	11,630	16,918	7,692	9,213

Notes to the Financial Statements for the year ended December 31, 2007

Note 10 – Investment Property

1. Changes in investment property during the year

Consolidated:

	Land	Rental buildings	Total
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Balance as at January 1, 2007 (1)	31,780	76,500	108,280
<u>Additions during the year:</u>			
Purchases	-	-	-
Increase in fair value (2)	-	3,600	3,600
Balance as at December 31, 2007	<u>31,780</u>	<u>80,100</u>	<u>111,880</u>

Company:

	Rental buildings	Total
	<u>NIS thousands</u>	<u>NIS thousands</u>
Balance as at January 1, 2007 (1)	76,500	76,500
<u>Additions during the year:</u>		
Purchases	-	-
Increase in fair value (2)	3,600	3,600
Balance as at December 31, 2007	<u>80,100</u>	<u>80,100</u>

(1) See Note 2AC(4) regarding the methods by which the fair value of investment property was determined as at January 1, 2007.

(2) The fair value of investment property was determined based on valuations performed by independent appraisers having appropriate professional abilities regarding the location and type of investment property valued. The fair value was determined based on transaction recently executed in the market for similar properties with locations similar to those of the properties owned by the Company, if such transactions exist, and based on discounted cash flows projected to be generated by the properties. The range of discount rates used by the appraisers is 7%-9.5% per annum, considering the type of property and its designation, location of the property and quality of the tenants.

2. The amounts recognized in the statement of operations for the year ended December 31:

Consolidated and Company

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Rental income from investment property	7,671	8,275	7,962
Increase in fair value	3,600	-	-

Notes to the Financial Statements for the year ended December 31, 2007

Note 11 - Fixed Assets

A. Consolidated

	Leasehold improvements	Machinery equipment and facilities	Furniture and office equipment	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cost as at January 1, 2007 (1)	5,859	22,093	13,726	41,678
Additions	71	1,491	617	2,179
Disposals	-	(237)	(87)	(324)
Adjustment resulting from foreign currency translation differences *	(524)	(2,049)	(909)	(3,482)
Balance as at December 31, 2007	5,406	21,298	13,347	40,051
Accumulated depreciation as at January 1, 2007	5,360	16,592	10,198	32,150
Additions	123	2,223	705	3,051
Disposals	-	(75)	(76)	(151)
Adjustment resulting from foreign currency translation differences *	(489)	(1,629)	(732)	(2,850)
Balance as at December 31, 2007	4,994	17,111	10,095	32,200
Net book value as at December 31, 2007	412	4,187	3,252	7,851
Net book value as at December 31, 2006	499	5,501	3,528	9,528

* See Note 2D.

B. Company

	Leasehold improvements	Office equipment	Total
	NIS thousands	NIS thousands	NIS thousands
Balance as at December 31, 2007	83	3,953	4,036
Additions	-	5	5
Disposals	-	(53)	(53)
Balance as at December 31, 2007	83	3,905	3,988
Accumulated depreciation as at January 1, 2007	2	2,316	2,318
Additions	8	239	247
Disposals	-	(40)	(40)
Balance as at December 31, 2007	10	2,515	2,525
Net book value as at December 31, 2007	73	1,390	1,463
Net book value as at December 31, 2006	81	1,637	1,718

Notes to the Financial Statements for the year ended December 31, 2007

Note 12 - Other Assets

Consolidated

	December 31	
	2007	2006
	NIS thousands	
Development costs (*):		
Original amount	13,926	-
Less - accumulated amortization	2,388	-
	<u>11,538</u>	<u>-</u>
Usage rights to patent and other:		
Original amount	6,042	1,357
Less - accumulated amortization	1,454	811
	<u>4,588</u>	<u>546</u>
	<u><u>16,126</u></u>	<u><u>546</u></u>

(*) First-time application of Accounting Standard No. 30 by a subsidiary (See Note 2AD(5)).

Note 13 - Credit from Banks and Others

A. Composition:

	Consolidated		Company	
	December 31		December 31	
	2,007	2006	2007	2006
	NIS thousands		NIS thousands	
Credit from banks (B)	39,864	29,575	-	-
Current maturities of long-term loan (Note 16)	290,596	4,225	282,904	-
	<u>330,460</u>	<u>33,800</u>	<u>282,904</u>	<u>-</u>

B. Credit classified by linkage terms and interest rates:

	Interest rate as at December 31	December 31	
		2007	2006
		\$ millions	
Linked to the Dollar	LIBOR+1.5, LIBOR +2%	39,621	29,575
Unlinked	Prime + 2%	243	-
		<u>39,864</u>	<u>29,575</u>

C. See Note 22 regarding liens to secure credit.

Notes to the Financial Statements for the year ended December 31, 2007

Note 14 - Trade Payables

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Open debts	53,836	39,393	784	266
Checks and notes payable	679	1,080	679	1,080
	54,515	40,473	1,463	1,346

Note 15 - Other Payables

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Employees and withholdings payable	9,597	8,357	2,563	2,314
Provision for vacation pay and vacation expense allowance	3,199	3,138	353	544
Accrued expenses	13,504	14,553	11,756	7,902
Government agencies (including taxes)	42,964	31,233	7,963	253
Provision for warranty and repairs	1,535	1,073	-	-
Severance pay payable and current portion of early retirement pensions (Note 18)	233	11,875	233	11,875
Deferred income	1,811	1,458	-	-
Investee company	1,132	1,132	18	21
Accrued interest	28,668	21,233	28,349	17,266
Liabilities regarding forward transactions	-	17,404	-	17,404
Advance on account of sale of affiliate	-	26,321	-	26,321
Provisions for legal claims	23,543	12,417	3,262	4,220
Payable regarding land in subsidiary	16,985	-	-	-
Other	21,088	11,034	7,899	11,988
	164,259	161,228	62,396	95,888

Notes to the Financial Statements for the year ended December 31, 2007

Note 16 - Long Term Liabilities

A. Loans

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
1. Loans from banks	1,367,497	1,335,592	1,352,113	300,579
Less - current maturities	290,596	4,225	282,904	-
	1,076,901	1,331,367	1,069,209	300,579
2. Loans and liabilities from others:				
Shareholders in subsidiaries	7,887	7,669	-	-
Investees	-	-	6,382	6,382
Others	6,731	7,605	-	-
	14,618	15,274	6,382	6,382
Less - current maturities	-	-	-	-
	14,618	15,274	6,382	6,382

3. Loans classified by linkage terms and interest rates:

Consolidated:

	Interest rate as at December 31	December 31	
		2007	2006
		\$ millions	
	%		
Linked to the Dollar	7.65%, LIBOR +2%	29,861	37,239
Linked to the CPI	4.52%	1,352,254	1,313,627
		1,382,115	1,350,866
Less - current maturities		290,596	4,225
		1,091,519	1,346,641

Company

	Interest rate as at December 31	December 31	
		2007	2006
		\$ millions	
	%		
a. From banks:			
Linked to the CPI	4.52%	1,344,367	292,070
Unlinked		7,746	8,509
		1,352,113	300,579
Less - current maturities		(282,904)	-
		1,069,209	300,579

b. From investees:
Unlinked capital note, non-interest

Notes to the Financial Statements for the year ended December 31, 2007

Note 16 - Long Term Liabilities (cont'd)

B. Debentures

Presented as long-term liabilities:

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Debentures (1)(2)	1,634,775	988,482	1,634,775	988,482

- (1) On April 10, 2005, as part of a private placement to Israeli institutional investors, the Company issued NIS 400 million par value in debentures, as well as 800,000 options (see Note 20C) for NIS 400 million in cash. The debentures bear annual interest of 3.75%, linked to the CPI, which is paid on April 30 and October 31 of each year. The debentures are linked to the CPI and will be repaid in a balloon payment on April 30, 2010. The issue proceeds were allocated to the components of the bundle according to the fair value of the securities issued. Accordingly, the discount in respect of the debentures amounted to approximately NIS 22 million which is being amortized as finance expenses over the life of the debentures. The debentures are presented net of the discount and deferred issue costs of approximately NIS 1.3 million.
- (2) On August 20, 2006, pursuant to completion of a public offering in Israel, the Company issued debentures with a par value of NIS 600 million. The debentures are linked to the Israeli CPI and bear annual interest of 5.1%. The debentures will be repaid in five equal installments on September 1 of each year from 2012 through 2016. The interest is payable on the outstanding balance of the debentures, on September 1 of each year from 2007 through 2016. The debentures are presented net of deferred issue costs of approximately NIS 6 million which are amortized based on the effective interest rate method. The Israeli Securities Authority and the Tel Aviv Stock Exchange approved the listing of the debentures for trading on the Tel Aviv Stock Exchange. The debentures have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to U.S. persons, absent registration or an applicable exemption from registration requirements.
- (3) On May 10, 2007, pursuant to completion of an offering to institutional investors in Israel the Company issued debentures with a par value of approximately NIS 595 million, for consideration of approximately NIS 640 million, implying an effective interest rate of 4.05%, linked to the Israeli CPI. The debentures will be considered part of the Series H debentures issued on August 20, 2006 by the Company to the public in Israel pursuant to the prospectus dated August 13, 2006 and the terms of the debentures are identical to the terms of the Series H debentures issued under the prospectus. The debentures have been approved for trading on the Tel-Aviv Stock Exchange. The sale of the debentures by the institutional investors is subject to lock-up arrangements provided under the Israeli Securities Law, 1968 and its regulations. The debentures have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to U.S. persons, absent registration or an applicable exemption from registration requirements.

Notes to the Financial Statements for the year ended December 31, 2007

Note 16 - Long Term Liabilities (cont'd)

C. 1. Consolidated Liabilities - (net of current maturities) that will mature in the following years subsequent to balance sheet date are as follows:

	Loans from banks		Loans from others		Debentures		Total	
	December 31		December 31		December 31		December 31	
	2007	2006	2007	2006	2007	2006	2007	2006
NIS thousands								
Second year	230,081	287,631	2,357	3,955	-	-	232,438	291,586
Third year	846,820	229,846	3,262	11,169	410,572	-	1,260,654	241,015
Fourth year	-	813,890	1,112	150	-	394,278	1,112	1,208,318
Fifth year	-	-	-	-	244,839	-	244,839	-
Sixth year	-	-	-	-	244,840	118,841	244,840	118,841
Subsequent years	-	-	7,887	-	734,524	475,363	742,411	475,363
	1,076,901	1,331,367	14,618	15,274	1,634,775	988,482	2,726,294	2,335,123

D. The Company Liabilities - (net of current maturities) that will mature in the following years subsequent to balance sheet date are as follows:

	Loans from banks		Loans and capital notes from		Debentures		Total	
	December 31		December 31		December 31		December 31	
	2007	2006	2007	2006	2007	2006	2007	2006
NIS thousands								
Second year	222,389	179,182	-	-	-	-	222,389	179,182
Third year	846,820	121,397	-	-	410,572	-	1,257,392	121,397
Fourth year	-	-	-	-	-	394,278	-	394,278
Fifth year	-	-	-	-	244,839	-	244,839	-
Sixth year	-	-	-	-	244,840	118,841	244,840	118,841
Subsequent years	-	-	6,382	6,382	734,524	475,363	740,906	481,745
	1,069,209	300,579	6,382	6,382	1,634,775	988,482	2,710,366	1,295,443

E. See Note 19A(3) regarding Koor's commitment to comply with financial covenants.
See Note 22 for details of guarantees furnished to secure liabilities.

Notes to the Financial Statements for the year ended December 31, 2007

Note 17 - Taxes on Income**A. Tax benefits under the Law for Encouragement of Capital Investments, 1959**

Under this law, by virtue of the "approved enterprise" status granted to certain enterprises of several investees, these companies are entitled to various tax benefits. The income derived from these enterprises during a period of 7 to 10 years, from the year in which these enterprises first had taxable income (limited to 12 years from commencement of production or 14 years from the date of the approval, whichever is earlier), is subject to a corporate tax rate of 0 - 25%.

According to the alternative track, some of the plants of subsidiaries were granted a tax exemption for a two to four year period and are taxed at the reduced rate of 25% during the remaining benefits period.

Fixed assets owned by investees who are approved enterprises are entitled to an accelerated amortization deduction.

In the event that an investee distributes a dividend to shareholders out of income attributable to revenues which received the approved enterprise tax exemption, the distributing investee will be required to pay the company tax (25%) it had saved in the period of the benefits.

Investees did not create deferred taxes in respect of income from approved enterprises, since it is the Group's policy not to initiate a distribution of dividends from its subsidiaries that would result in an additional tax liability to the Group.

Benefits are conditional upon the fulfillment of terms set out in law or in deeds of approval. Non-fulfillment of terms could cause cancellation of the benefit, in whole or in part, and the return of benefit sums, plus interest and linkage differentials. The investees met all terms set out as above as at the dates of the financial reports.

As security for the implementation of the approved projects and compliance with the conditions of the approval, a pledge has been registered on the above subsidiaries' assets in favor of the State of Israel.

B. Measurement of results for tax purposes in accordance with the Income Tax (Inflationary Adjustments) Law, 1985 (hereinafter - "the Adjustments Law")

The Company and its subsidiaries in Israel are subject to the Income Tax Law (Inflationary Adjustments), 1985. Under this Law, the results for tax purposes are adjusted principally for the changes in the Consumer Price Index. However, the adjusted income under the tax laws is not always identical to the reported income according to the accounting standards of the Israel Accounting Standards Board. As a result, there are differences between the earnings reported according to financial statements and the adjusted income for tax purposes.

See Note 2R and Note 17G regarding deferred taxes on such differences.

On February 26, 2008, the Israeli Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) – 2008 ("the Amendment") was passed by the Knesset. According to the Amendment, the Inflationary Adjustments Law will no longer be applicable subsequent to the 2007 tax year, except for certain transitional provisions.

Further, according to the Amendment, commencing with the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on fixed assets and tax loss carryforwards will no longer be linked to future changes in the CPI, such that these amounts will continue to be linked only to the CPI as of the end of the 2007 tax year and will not be linked to CPI changes after this date.

Notes to the Financial Statements for the year ended December 31, 2007

Pursuant to the Amendment, in the tax year 2008 and henceforth, taxable income will no longer be adjusted to a real measurement basis. Likewise, linkage to the CPI will be discontinued for depreciation of fixed assets and carryforward tax losses, in a manner whereby these amount will be adjusted to the CPI for the end of the 2007 tax year, and from that date henceforth, their linkage will be discontinued.

Note 16 - Taxes on Income (cont'd)**C. Law for the Encouragement of Industry (Taxation), 1969**

Certain companies qualify as "industrial companies" under the above law. By virtue of this status and certain regulations published under the inflationary adjustments law, the companies are entitled to claim, and have claimed, accelerated rates of depreciation.

D. Tax rates applicable to income from other sources

Income not eligible for "approved enterprise" benefits, is subject to tax at the statutory tax rate of 29% (or if the investee is registered and operates outside of Israel, at the tax rate prescribed for that territory).

E. Losses for tax purposes carried forward to future years and tax assessments

1. The consolidated balance of carryforward tax losses at December 31, 2007 amounted to approximately NIS 3,665 million, of which NIS 2,081 million relates to Koor. Carryforward tax losses of the Israeli companies are linked to the CPI, according to the Adjustments Law.
2. The Company has received final assessments up to and including the year ended 2002.

F. Amendment to the Income Tax Ordinance

1. On July 25, 2005 the Israeli Knesset passed the Law for the Amendment of the Income Tax Ordinance (No.147 and Temporary Order) - 2005 (hereinafter - the Amendment). The Amendment provides for a gradual reduction in the statutory company tax rate in the following manner: in 2006 the tax rate will be 31%, in 2007 the tax rate will be 29%, in 2008 the tax rate will be 27%, in 2009 the tax rate will be 26% and from 2010 onward the tax rate will be 25%.

Furthermore, as from 2010, upon reduction of the company tax rate to 25%, real capital gains will be subject to tax of 25%.

The current taxes and deferred tax balances at December 31, 2007 were calculated in accordance with these tax rates.

Notes to the Financial Statements for the year ended December 31, 2007

Note 17 - Taxes on Income (cont'd)

G. Deferred taxes:

1. Deferred taxes are presented in the consolidated balance sheet as follows:

	December 31	
	2007	2006
	NIS thousands	
Within current assets	2,385	241
Within long-term liabilities	(2,385)	(34)
	<u>-</u>	<u>207</u>

2. Balances and movement of deferred taxes in the consolidated balance sheet:

	Depreciable fixed assets	Inventories net of customer advances	Provisions for employee rights	Losses and deductions carried forward	Timing differences in respect of recognition of income and expenses	Total
	NIS thousands					
Balance as at January 1, 2006	1,759	(74)	9	10,559	2,316	14,569
Translation differences in subsidiaries	31	6	(14)	(84)	(193)	(254)
Amounts charged to statement of operations	(1,826)	68	238	(10,475)	(2,115)	(14,110)
Balances as at December 31, 2006	(36)	-	233	-	8	205
Translation differences in subsidiaries	95	-	(22)	(79)	(1)	(7)
Amounts charged to statement of operations	(2,444)	-	62	2,126	58	(198)
Other differences, net	-	-	-	-	-	-
Balances as at December 31, 2007	<u>(2,385)</u>	<u>-</u>	<u>273</u>	<u>2,047</u>	<u>65</u>	<u>-</u>

Deferred taxes were computed at tax rates of 22% - 35%.

- (*) The Company and some of the subsidiaries have deferred tax balances due to tax losses and other temporary differences, the realization of which is not expected. In the opinion of the managements of the companies, the likelihood of utilization of these balances is not high, and therefore deferred taxes were not created for these losses.

As at December 31, 2007, the balance of deferred tax assets that were not created because of the unlikelihood of their utilization totaled NIS 928 million (December 31, 2006 – NIS 493 million).

Notes to the Financial Statements for the year ended December 31, 2007

Note 16 - Taxes on Income (cont'd)

H. Taxes on income included in consolidated statements of operations

1. Composition of income tax on continuing operations:

	For the year ended December 31		
	2007	2006	2005
	\$ thousands		
Current taxes	(278)	1,479	3,039
Deferred taxes	198	14,108	71,300
In respect of previous years, net	(29)	* (10,916)	3,057
	<u>(109)</u>	<u>4,671</u>	<u>77,396</u>

* Primarily relating to final tax assessments received by a subsidiary.

2. Below is the adjustment between the theoretical tax amount which would have been applicable if income from continuing operations of Koor Group and the consolidated companies were taxable at the statutory tax rate effective in Israel at that time, and the tax amount charged in the statement of operations.

	For the year ended December 31		
	2007	2006	2005
	\$ thousands		
Earnings (loss) from continuing operations			
before taxes on income	<u>607,813</u>	<u>(109,011)</u>	<u>348,157</u>
Statutory tax rate	<u>29%</u>	<u>31%</u>	<u>34%</u>
Theoretical tax expense (savings)	<u>176,266</u>	<u>(33,793)</u>	<u>(122,785)</u>
Increment (savings) in tax liability for:			
Deduction of Koor's equity in operating results of affiliates, net	(85,596)	11,330	(2,314)
Tax benefits under various encouragement laws	-	(931)	(1,671)
Non-deductible expenses for tax purposes (tax-free income)	3,930	(1,751)	(1,671)
Losses and temporary differences for which deferred taxes were not recorded	488,467	53,308	133,698
Utilization of tax loss carry forwards and temporary differences from prior years for which deferred taxes were not created and utilized / were reversed during the current year	(582,745)	(26,812)	(61,531)
Deferred taxes in respect of prior years and which were written-off in the reporting year	-	14,305	9,951
Taxes in respect of prior years	(29)	(10,916)	3,057
Effect of foreign subsidiaries *	(777)	(308)	-
Others **	375	239	618
Total taxes on income	<u>(109)</u>	<u>4,671</u>	<u>77,396</u>

* Relates to territories of operations in which the statutory tax rate is lower than that used in Israel.

** Including influence of changes in tax rate.

Notes to the Financial Statements for the year ended December 31, 2007

Note 18 - Liabilities for Employee Severance Benefits, Net**A. Pension, severance pay and retirement grants**

Under current labor laws and existing labor agreements, the companies in the Group are required to make severance payments, to employees who are dismissed or who retire, computed on the basis of their latest salary.

In respect of these liabilities, regular deposits are made by Group companies with pension and severance pay funds. The balance sheet amount represents the unfunded balance of the liabilities. As the funds deposited are not under the control and management of the Group companies, the funded amounts are not reflected in the balance sheets. These deposits and the amount stated in the balance sheet fully cover the Group's liability for employee severance benefits.

Investees in which irregular severance has been planned or agreed upon have recorded provisions to record their liability for the supplementary amounts.

B. Funds for severance pay and retirement grants

The funds for severance pay and retirement include accrued CPI adjustments and interest, and they are deposited in severance pay funds in banks and insurance companies. Withdrawals of the funded amount is permitted on fulfillment of the provisions of the Severance Pay Law.

C. Early retirement pension

Under agreements with certain employees who retired from service, Koor Group companies have undertaken to make pension payments until they reach retirement age. The entire liability for such pensions is included in the accounts on the basis of the present value of future pension payments, computed at a monthly discount rate of 0.37%-0.39% per month (4.4% - 4.7% per annum).

D. Liabilities for severance benefits, which are presented in the balance sheet, and the amount funded in severance pay funds, are as follows:

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Severance pay and retirement grants	1,660	4,045	1,660	4,045
Amount accrued for early retirement	1,281	1,448	1,281	1,448
	2,941	5,493	2,941	5,493
Less – amount funded	3,566	3,356	3,566	3,356
	(625)	2,137	(625)	2,137
Classification of excess of amount funded over amount accrued (see Note 9)	625	-	625	-
	-	2,137	-	2,137

E. Subsequent to the change in control of the Company described in Note 26A and the ensuing managerial changes, the Company recorded a provision for retirement of employees in the second quarter of 2006 in the amount of NIS 26 million.

Notes to the Financial Statements for the year ended December 31, 2007

Note 19 - Contingent Liabilities and Commitments**A. Contingent liabilities****1. The Company**

- a. On September 21, 2004 a suit was filed with the Tel Aviv District Court against the Company, Bezeq - the Israel Telecommunications Company Ltd. ("Bezeq"), Tadiran Ltd. (a subsidiary of Koor - "Tadiran"), Tadiran Telecommunications Ltd. (a former subsidiary of Koor which was merged with ECI - "Telecommunications"), Tadiran Public Switching Ltd., (a former subsidiary in Telecommunications), and Telrad Networks Ltd. (an affiliate of Koor - "Telrad Networks") in connection with the public switches. A motion for recognition of the suit as a class action was filed together with the suit in accordance with the Anti-Trust Law, 1988 ("the Anti-Trust Law"), and according to Civil Procedure regulations. In the Statement of Claim, the plaintiff alleges that during the 1980's and 1990's, the defendants had engaged in activities prohibited by the Anti-Trust Law that they allege resulted in damages to Bezeq's customers. In respect of the actions alleged by the Plaintiff, the Plaintiff is asking for damages for the group that he is seeking to represent in the amount of NIS 1.7 billion.

On March 10, 2005, the Company and the other defendants submitted to the District Court their clarified objection to the request of the plaintiff to certify the claim as a class action. On December 6, 2005 the Plaintiff filed his response to the said objection.

On February 16, 2006, the Plaintiff filed a motion in court to order the defendants to provide discovery of certain documents. The defendants filed their response on March 27, 2006, in which they rejected the Plaintiff's demand arguing that first the legal allegations should be heard, the acceptance of which means an outright dismissal. In early February 2007, the Tel-Aviv District Court Registrar accepted the Company's position and dismissed the defendants' motion for discovery of documents.

On February 25, 2007, the Plaintiff filed an appeal of the Registrar's ruling. After each of the parties files the essentials of the claim and the summarized essentials of the claim, the matter was sent to the court for its review.

In the opinion of the Company, which is based on the opinion of its legal counsel, the chances of the claim and of the certification of the claim as a class action are remote.

Under the terms of the agreement for the sale of shares of Telrad Networks (from year 2004), Koor committed to indemnify the share purchasers in the event that a court ruling will increase the amount of expenses to be paid by Telrad Networks to an amount exceeding that stated in the share purchase agreement.

Notes to the Financial Statements for the year ended December 31, 2007

Note 18 - Contingent Liabilities and Commitments (cont'd)

A. Contingent liabilities (cont'd)

- b. In February 2007, a suit was filed with the Tel Aviv District Court against the Company and several directors and officers of the Company and of United Steel Mills Ltd. (in liquidation) ("Steel Mills"), a former subsidiary of the Company, and various other parties. A motion for recognition of the suit as a class action was filed together with the suit.

Steel Mills issued convertible bonds by means of a prospectus to the public in February 1993. The bonds were to be repaid in three installments on January 31, 1999, 2000 and 2001. The first installment was repaid by Steel Mills, but the other two installments have not been repaid. In March 2000 Steel Mills began to be managed under a stay of proceedings order by the Haifa District Court, which was later altered to a liquidation order. The convertible bonds were unsecured and the assets of the company were insufficient, thus the last two installments of the bonds were not repaid.

In the Statement of Claim, the plaintiff alleges that the defendants are responsible for false representations made by them and for which they are responsible, and upon which he acted.

In the event that the suit will be recognized as a class action, the Plaintiff is asking for damages for the group that he is seeking to represent in the amount of NIS 25 million.

On June 25, 2007, the Company's attorneys filed a response to the motion for class action recognition on behalf of the Company, directors and officers and Steel Mills. At the same time, a response was also filed on behalf of the accountants of Steel Mills. These responses raised serious arguments against recognition of the suit as a class action.

The Plaintiff filed his response on December 2, 2007.

In the opinion of the Company's management, based on the opinion of its legal counsel, the prospects that the motion for approval as a class action will be recognized is remote or nearly remote. Therefore, no provision was recorded in the financial statements.

Notes to the Financial Statements for the year ended December 31, 2007

Note 18 - Contingent Liabilities and Commitments (cont'd)**A. Contingent liabilities (cont'd)**2. Indemnification in agreement for the sale of Elisra from 2002

As part of the agreement for the sale of 30% of Koor's holdings in Elisra to Elta Electronic Industries Ltd. ("Elta") in 2002, Koor undertook to indemnify Elta in connection with the insurance indemnity rights to which the Elisra Group is entitled relating to the fire that occurred at Elisra's subsidiaries' plants. Elta's right to demand payment of the indemnity in this matter carries no time limit.

3. Pursuant to agreements with the banks, Koor undertook to maintain certain financial covenants, including a minimum equity and maximum debt of Koor and certain investees, a ratio of shareholders' equity to debt capital, prohibition against creating liens without prior consent of the banks and limitations stipulated in the agreement. Additionally, Koor undertook, under certain circumstances to repay part of the existing debt by using the proceeds to be received from the divestiture of certain assets, if sold.

Furthermore, Koor has undertaken not to realize shares of the Company held at certain percentages not to exceed that stipulated in the agreements with the banks and other limits, as provided in the aforementioned agreements, and has undertaken opposite each of the banks to receive its advance written consent to a change in the control in Koor.

As at balance sheet date, Koor is in compliance with these conditions.

4. M-A Industries and its investees(1) Environmental protection:

The production processes of M-A Industries, as well as the products it produces and markets, involve environmental risks and they affect the environment. M-A Industries invests substantial sums in order to comply with environmental laws and regulations wants to prevent or minimize the environmental risks that could occur during its operations. To the best of M-A Industries' knowledge, at the balance sheet date, none of the permits or licenses that apply to it relating to the environment has been revoked. M-A Industries is insured against any sudden, unexpected environmental contamination caused in Israel and the rest of the world. M-A Industries assesses, based on its insurance advisors, that it has proper insurance coverage for such events.

As at balance sheet date, M-A Industries has only limited and relatively low coverage against ongoing environmental contamination. Such insurance is difficult to obtain, and in cases when it can be obtained, M-A Industries' Management believes that the terms of the policy, including the amount of the insurance coverage, do not presently justify obtaining such a policy.

Notes to the Financial Statements for the year ended December 31, 2007

Note 18 - Contingent Liabilities and Commitments (cont'd)

A. Contingent liabilities (cont'd)\

4. M-A Industries and its investees (cont'd)

- (2) Administrative proceedings and fiscal claims are pending against a subsidiary of M-A Industries in Brazil, all of which deal with demands for payment of various taxes, totaling some US\$ 20 million (including interest and linkage differences as at the balance sheet date). On the basis of the opinion of its legal advisors, the subsidiary estimates that its chances of prevailing in all the proceedings and fiscal claims pending against it are good.
- (3) In 2002, an action was filed against a subsidiary of M-A Industries by a private environmental protection organization, claiming that the subsidiary's plant in Londrina pollutes the environment and causes damage to its vicinity and neighbors. The plaintiff demands preparation of an environmental impact study, examinations for the subsidiary's employees and neighbors, and cessation of the production activity at the plant, as well as the payment of damages to the neighboring residents. The lower court instructed that an environmental impact study be conducted, but the court of appeals ruled that the subsidiary did not have to perform an environmental survey and/or examinations of the subsidiary's employees and neighboring residents until after a final ruling is issued requiring the subsidiary to carry out such relief. The subsidiary's Millennia's legal advisors estimate that Millennia has good defenses against the claim and, therefore, no provisions were included in the books in respect of this action.
- (4) In 2004, six identical actions were filed against a subsidiary of M-A Industries in the United States and against six other agrochemical companies in the State of Illinois, USA, by a local water supplier (hereinafter – “the Plaintiff”). In these actions, the Plaintiff seeks to represent all the water suppliers in the State of Illinois. The water supplier claims that the product “atrazine”, which is sold by the defendant companies, pollutes its water source, and that water having an atrazine content is a health hazard. The Plaintiff does not indicate the concentration of atrazine in the water or that the quantity of atrazine in its water exceeds the amount permitted by the Federal Water Standard, but claims that atrazine is a health hazard even at concentrations below the Federal Standard.
- One of the principal contentions in the claim is that the subsidiary (as well as the other defendants) is aware of the danger of atrazine to human beings, and is concealing this information from the authorities and the public. The subsidiary contends that it received its license for atrazine pursuant to U.S. law by means of referring to studies submitted by the original license holder without it having been permitted to review such studies. In addition, the subsidiary contends that it did not conduct its own independent studies and it is not aware of studies indicating that atrazine at the concentration permitted by the Federal Water Standard is hazardous to human health.

In light of that stated above the subsidiary of M-A Industries estimates, based on the opinion of its legal advisors, that the chances that it will be found responsible for concealing information are remote.

Additional causes of action claimed by the Plaintiff are encroachment, nuisance, negligence and violation of the environmental protection and water pollution laws.

Notes to the Financial Statements for the year ended December 31, 2007

Note 18 - Contingent Liabilities and Commitments (cont'd)**A. Contingent liabilities (cont'd)**4. M-A Industries and its investees (cont'd)

Among the remedies the Plaintiff is requesting are: obligating the defendants to prepare and implement a plan for cleaning the Plaintiff's water, compensation of the Plaintiff for decline in value of its properties as a result of the presence of atrazine in the water and damage to its reputation. As is customary for claims of this type in the United States, the claim does not state the amount of the damages sought or the compensation requested.

The claim is in the very preliminary stages, the stage of certification of the claim as a class action has not yet started nor has the document discovery stage gotten underway.

The cumulative share of the subsidiary of M-A Industries in sales of atrazine in Illinois is low in relation to the other defendants.

Taking into account the fact that the Plaintiff does not state that the concentration of atrazine in the water exceeds that permitted by the Federal Water Standard, and the fact that the chances are remote that M-A Industries subsidiary will be found responsible for concealing information (as described above), M-A Industries the subsidiary estimates, based on the opinion of its legal advisors, that the chances that the claim will be rejected are higher than the chances it will prevail.

No provision has been included in the financial statements in respect of this claim.

- (5) In October 2007, a financial claim was lodged in Beer Sheba District Court against a subsidiary of M-A Industries, as well as a motion for class action recognition under the Class Action Law, 2006., by three residents of the settlement of Wadi el Naim, alleging that their health had been harmed by the subsidiary's plant in Ramat Hovav, due to various causes of action involving air pollution. If the claim will be recognized as a class action, the plaintiffs estimate that the amount to be claimed from M-A Industries is approximately NIS 1 billion. At the date of the report, based on the opinion of its legal counsel, after examining the allegations of the plaintiffs as expressed in the action and motion filed for class action recognition and the substance of the claim, in view of the preliminary stage of the claim, the information and data possessed by M-A Industries, and noting that there are no precedents of this type in class actions in which a ruling was issued on the individual matter, regarding damage of the type claimed in the class action, and due to the lack of precedents of this kind of class action regarding physical damage, it is very difficult for the legal counsel of M-A Industries to assess the prospects that the claim will be recognized as a class action and there is a great deal of difficulty in assessing the possible outcome of the action, if approved, in particular.

Notes to the Financial Statements for the year ended December 31, 2007

Note 18 - Contingent Liabilities and Commitments (cont'd)**A. Contingent liabilities (cont'd)**5. ECtel Ltd. ("ECtel")

In January 2005, after being amended twice, a class action complaint was filed in the United States against ECtel and certain directors and officers of ECtel who served in the years 2001 and 2003, and against the major shareholders in this period. The complaint alleges that between April 2001 and April 2003, there were violations of U.S. Federal Securities laws in connection with disclosure of ECtel's financial results in the financial statements of ECtel.

In July 2006, the United States District granted ECtel's motion to dismiss the securities class action lawsuit. As a result of the dismissal, the Plaintiff filed a motion for a further amendment. The motion was dismissed in March 2007 and the Plaintiff appealed the ruling. A court hearing was scheduled for March 18, 2008.

ECtel's management, based on the opinion of its legal advisors, did not record a provision in its financial statements.

6. A number of claims, in the total amount of NIS 65 million, have been filed against the Company and certain investees concerning various matters arising in the normal course of business, including litigation with tax, customs and VAT authorities, which are in various legal proceedings. In the estimation of the managements of these companies, based on the opinions of their legal counsel, the provisions for these claims included in their financial statements, are adequate in light of the circumstances.
7. On fulfillment of conditions relating to an investment grant – see Note 17A.
8. On the indemnity granted to Claridge as advisor - see Note 26B(5).
9. The liability of directors and officers in the Company and in investee companies is insured by Clal Insurance Company Ltd., a member of the IDB Group, which is an interested party, in directors and officers (D&O) insurance, subject to the terms of the insurance policy. Additionally, in accordance with a resolution by the general meeting of the Company's shareholders, the Company resolved to indemnify its directors and officers against various events that the insurance does not cover, and in monetary amounts exceeding the insured amounts, all as provided in the said resolution.

Notes to the Financial Statements for the year ended December 31, 2007**Note 18 - Contingent Liabilities and Commitments (cont'd)****B. Commitments**

- Certain companies in the Group lease and rent industrial and office premises under long-term contracts. The lease contracts are non-cancelable and in most cases include renewal options. The expenses of these companies were NIS 5.6 million in 2007 (NIS 14 million in 2006 and NIS 11 million in 2005).

Future minimum payments under the non-cancelable operating leases and rental fees for the years subsequent to balance sheet date, are as follows:

	December 31
	2007
	(NIS thousands)
First year	7,225
Second year	1,787
Third year	1,202
Fourth year	302
	10,516

- In August 2006, Koor entered into an agreement in which it committed to invest \$15 million in Indivision India Partners, a private equity fund totaling \$425 million, which invests in the retail sector in India.
In 2007, Koor invested \$6.75 million (2006 - \$1.5 million).

As at December 31, 2007, the Company's commitment for additional investments in the fund total \$6.75 million.

- Pursuant to the transaction for the sale of Sheraton-Moriah described in Note 3E(2), the Company is obliged to facilitate the repayment of a loan in the amount of NIS 17 million to pay for land purchased from Sheraton-Moriah by another subsidiary of the Company, in which the Company holds 55%, no later than March 27, 2008.
- In connection with the valuation of M-A Industries described in Note 3A(3), the Company undertook to indemnify the valuation expert against any expense or financial damage he may sustain, with respect to any claim filed against him by any third party, in respect of the said valuation.

Notes to the Financial Statements for the year ended December 31, 2007**Note 20 - Share Capital and Stock Options****A. Share capital is composed as follows:**

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Authorized</u>	<u>Issued and Outstanding</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
Number of shares:				
Ordinary shares, par value of NIS 0.001 (1) (3) (4)	<u>83,932,757</u>	<u>16,640,468</u>	<u>83,932,787</u>	<u>16,582,869</u>
Deferred shares, par value of NIS 0.001 (2)	<u>15,792,243</u>	<u>15,156,533</u>	<u>15,792,243</u>	<u>15,156,533</u>
Amount in nominal NIS:				
Ordinary shares, par value of NIS 0.001	<u>83,933</u>	<u>16,640</u>	<u>83,933</u>	<u>16,583</u>
Deferred shares, par value of NIS 0.001	<u>15,792</u>	<u>15,157</u>	<u>15,792</u>	<u>15,157</u>

- (1) These shares are listed on the Tel Aviv Stock Exchange (TASE). On December 31, 2007, the adjusted share price on the TASE was NIS 320.00.
- (2) The holders of the deferred shares are entitled to recovery of nominal paid-up capital upon liquidation, after payment of the nominal amount to the holders of the Ordinary Shares. The holders of the deferred shares do not have voting rights, and they are not entitled to participate in a dividend distribution of any kind.
- (3) On the balance sheet date, a subsidiary held 15,799 Ordinary Shares of Koor.
- (4) During 2007, options in the employee stock option plans (See C below) were exercised for 57,052 ordinary shares.
- (5) At the balance sheet date, a subsidiary holds 14,491,494 deferred shares of Koor.
- (6) Termination of ADR program

In June 18, 2007, the delisting of the Company's American Depositary Receipts (hereinafter – ADR's) from the New York Stock Exchange (hereinafter – NYSE) became effective. The delisting follows the decision of the Company's Board of Directors from May 2007 to voluntarily delist the ADR's from the NYSE and to terminate the ADR program.

Following termination of the ADR program, no additional ADR's may be issued.

Holders of ADRs were entitled to return their ADRs to the Bank of New York (BONY) by September 18, 2007 and receive ordinary shares of the Company in consideration (each ADRs represents 0.20 of an ordinary share), subject to cancellation fees charged by BONY.

Holders of ADR's who did not inform BONY that they want to receive shares, as noted, by September 18, 2007, are entitled to receive from BONY their share of the proceeds from the sale of the shares held by BONY, against the ADR certificates not converted after September 18, 2007, subject to handling fees, taxes, etc.

In February 2008, the Company filed Form F15 with the SEC to de-list its shares in the SEC and to immediately suspend the reporting requirements imposed on it by the US Securities Law, 1934. The Company expects the de-listing to take effect within 90 days of the filing of Form F15.

Notes to the Financial Statements for the year ended December 31, 2007**Note 20 - Share Capital and Stock Options (cont'd)****C. Employee stock options****1. 2003 Plan**

On July 27, 2003, a general meeting of shareholders approved Stock Option Plan 2003, which had been approved previously by the Audit Committee and by the Board of Directors, on May 25, 2003 and June 5, 2003, respectively. The key points of the Plan are:

- a. A total framework was approved for the allotment of 1,200,000 stock options, theoretically exercisable for up to 1,200,000 ordinary shares of the Company, i.e. about 6.8% of the ordinary shares (fully diluted) of the Company.
- b. The options allotted to the trustee will be exercised for shares in a quantity reflecting the amount of the financial benefit inherent in the options, according to the Benefit Component Method, as provided below:
Under the terms of the Plan, each stock option is theoretically exercisable for one share, subject to adjustments. However, in practice, offerees who exercise the options will not be allotted the full quantity of shares underlying each option, but only shares which reflect the amount of the financial benefit inherent in their option, computed on the date of exercise. Accordingly, the exercise price of each stock option is intended only for computation of the benefit component ("benefit component method").
- c. The exercise price of each option will be NIS 96 linked to the CPI, unless the Company decides to prescribe a higher exercise price for options that will be allotted on dates subsequent to the approval date of the plan.
- d. The options are designated only for those who are not "controlling shareholders" and will not be "controlling shareholders" as a result of the allotment of the options. In any event, the total number of offerees under Plan 2003 will not exceed 35 offerees.
- e. The right of every offeree to exercise the options for shares will vest in six stages during the three-year period from the record date, whereby at the end of every calendar half-year, one-sixth of the number of options allotted to the trustee on his behalf will vest.
- f. Options not exercised by December 31, 2010 will expire.
- g. The Plan will be taxed under the Capital Gains Track, under the provisions of Section 102 of the Income Tax Ordinance and the regulations promulgated hereunder. Any tax to be imposed in respect of the exercise of the options will be borne solely by the offerees. The Company will be unable to claim any tax deduction for the expense.
- h. Also approved within the framework of the approval of Plan 2003 was the granting of 350,000 options out of the total number, to seven directors (except for two directors who are controlling shareholders in the Company, directly or indirectly), divided equally, as well as 175,000 options to the Company's CEO. The balance of the options is intended for other employees and officers of the Koor Group.
- i. The balance of options outstanding as at December 31, 2007:

<u>Balance of stock option not exercised</u>	<u>Exercise price</u>	<u>Exercise date</u>
	NIS	
	209.69	12/2010
	225.00	12/2010

Notes to the Financial Statements for the year ended December 31, 2007**Note 20 - Share Capital and Stock Options (cont'd)****B. Stock options to senior employees (cont'd)**

2. Changes in the options in respect of all stock option plans during 2007:

	<u>2003 Plan</u>	<u>Total</u>
Balance as at beginning of year	132,278	132,278
Granted	-	-
Exercised	<u>126,612</u>	<u>*126,612</u>
Balance as at end of the year	<u>5,666</u>	<u>5,666</u>

* Due to the "benefit component method", a total of 57,052 ordinary shares of the Company were issued.

During 2005 the Company granted a total of 60,000 employee stock options in respect of which the Company applies the provisions of Standard 24 pertaining to recognition of compensation expenses based on fair value on the grant date. The total compensation expense in respect of these stock options amounted to NIS 2,773 thousand, of which NIS 2,625 thousand has been recorded as compensation expenses through December 31, 2006, and the remaining NIS 148 thousand was recorded as compensation expenses in 2007.

The weighted-average of the balance of the contract life of the outstanding options as at December 31, 2007, is 3 years.

The fair value of the options granted, as stated, was estimated through use of the Black & Scholes Model for pricing options. The parameters used in application of the Model are as follows:
 Risk-free interest rate – 2.6% to 2.7% based on the yield to maturity of CPI linked government bonds;
 Volatility - 33% to 35% based on the historical fluctuations in prices of the Company's shares;
 Expected life of the options - 2.75 to 4 years.
 Subsequent to the balance sheet date, 1,666 options were exercised for employees for a total of 678 ordinary shares of the Company.

C. Option warrants to institutional investors

In the framework of a private placement to Israeli institutional investors, as described in Note 16B(1), 800,000 option warrants were issued on April 10, 2005. During 2007, 547 option warrants were exercised for 547 ordinary shares of the Company.

Each option warrant is exercisable until April 30, 2010 into one share of the Company of a par value of NIS 0.001 for an exercise price of NIS 300 linked to the CPI (as at December 31, 2007 – NIS 291.06) and may be adjusted for the distribution of a stock dividend and rights. The Company intends to register the underlying shares for trading on the Tel Aviv Stock Exchange.

D. Dividends

On August 15, 2007 and November 18, 2007 the Company's Board of Directors resolved to distribute interim dividends of NIS 150 million and NIS 380 million, respectively.

The dividends were paid on September 6, 2007 and December 10, 2007, respectively.

Notes to the Financial Statements for the year ended December 31, 2007

Note 21 - Financial Instruments and Linkage Terms of Monetary Balances

A. Derivative financial instruments

The Company has entered into forward transactions, in order to reduce the overall exposure of its CPI-linked debt. As at December 31, 2007, the Company had open CPI-NIS forward contracts in the amount of NIS 500 million, which are intended to hedge exposure with respect to debt linked to the CPI, as described below:

Average expiration date	Amount	Amount	Fair value	Book value
	receivable	payable		
NIS thousands				
4.12.2008	513,055	505,172	12,057	7,883

B. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term investments, trade receivables, other accounts receivable, credits from banks and others, trade payables and other accounts payable and other financial instruments are approximate or similar to at their fair value.

With respect to the market value of certain affiliated and other companies whose shares are traded on the stock exchange, see Note 8A(2).

	Consolidated		Company	
	Fair value	Book value	Fair value	Book value
	NIS millions	NIS millions	NIS millions	NIS millions
Long – term financial liabilities:				
Long-term bank loans, including current maturities	1,397	1,367	1,382	1,352
Other long-term loans, including current maturities	14	15	-	-
Debentures	1,641	1,635	1,641	1,635

C. Credit risk of trade receivables:

(NIS thousands)

Condensed data of credit risk of trade receivables as at December 31, 2007:

Receivables insured by credit risk companies	13,199
Receivables - Government authorities	2,700
Other receivables	24,337
Total (including non-current receivables)	40,236

In Management's opinion, the financial statements include suitable provisions in respect of exposure to doubtful debts.

The exposure to credit risks relating to trade receivables is limited, due to the relatively large number of customers.

Notes to the Financial Statements for the year ended December 31, 2007

Note 21 - Financial Instruments and Linkage Terms of Monetary Balances (cont'd)

D. Linkage terms of monetary balances:

(1) Consolidated

	December 31, 2007			December 31, 2006			Total
	In foreign currency of linked thereto*	Linked to the CPI	Unlinked	In foreign currency of linked thereto	Linked to the CPI	Unlinked	
	NIS thousands						
Assets							
Cash and cash equivalents	1,700,420	-	216,992	1,917,412	75,480	-	241,586
Short-term deposits and investments	12,974	176,770	172,909	362,653	23,832	177,765	382,529
Trade receivables	39,101	-	1,135	40,236	31,569	-	33,010
Other accounts receivable	12,393	272	53,433	66,098	56,425	1,075	61,230
Other long-term investments and receivables	65,718	29,600	-	95,318	72,921	26,707	99,628
	<u>1,830,606</u>	<u>206,642</u>	<u>444,469</u>	<u>2,481,717</u>	<u>260,227</u>	<u>205,547</u>	<u>817,983</u>
Liabilities							
Short-term credit from banks and others (not including current maturities of long-term liabilities)	39,621	-	243	39,864	29,575	-	29,575
Trade payables	34,830	-	19,685	54,515	27,348	-	40,473
Other accounts payable	40,530	29,286	92,632	162,448	25,509	19,295	159,770
Long-term loans and debentures (including current maturities)	29,861	2,987,029	-	3,016,890	37,239	2,302,109	2,339,348
	<u>144,842</u>	<u>3,016,315</u>	<u>112,560</u>	<u>3,273,717</u>	<u>119,671</u>	<u>2,321,404</u>	<u>2,569,166</u>

* Mainly in the US Dollar.

Notes to the Financial Statements for the year ended December 31, 2007

Note 21 - Financial Instruments and Linkage Terms of Monetary Balances (cont'd)

D. Linkage terms of monetary balances (cont'd):

(2) Company

	December 31, 2007			December 31, 2006				
	In foreign currency of linked thereto	Linked to the CPI	Unlinked	Total	In foreign currency of linked thereto	Linked to the CPI	Unlinked	Total
NIS thousands								
Assets								
Cash and cash equivalents	1,472,222	-	216,917	1,689,139	72,847	-	165,360	238,207
Short-term deposits and investments	6,867	176,770	163,351	346,988	5,269	172,746	167,385	345,400
Other receivables	6,552	-	227,529	234,081	115	-	3,509	3,624
Short term loans to investee companies	-	-	-	-	-	39,307	-	39,307
Other investments and receivables	7,787	-	-	7,787	9,213	-	-	9,213
Investee companies (including current maturities of loans)	-	53,022	32,442	85,464	13,952	9,447	15,300	38,699
	<u>1,493,428</u>	<u>229,792</u>	<u>640,239</u>	<u>2,363,459</u>	<u>101,396</u>	<u>221,500</u>	<u>351,554</u>	<u>674,450</u>
Liabilities								
Trade payables	-	-	1,463	1,463	-	-	1,346	1,346
Other accounts payable	2,409	29,286	30,683	62,378	4,359	18,163	73,366	95,888
Long-term liabilities (including current maturities of loans)	7,746	2,979,142	6,382	2,993,270	8,509	1,280,552	6,382	1,295,443
	<u>10,155</u>	<u>3,008,428</u>	<u>38,528</u>	<u>3,057,111</u>	<u>12,868</u>	<u>1,298,715</u>	<u>81,094</u>	<u>1,392,677</u>

* Mainly in the US Dollar.

Notes to the Financial Statements for the year ended December 31, 2007

Note 21 - Financial Instruments and Linkage Terms of Monetary Balances (cont'd)

E. Interest rate risk:

The following table presents the book values groups of financial instruments that are exposed to fair value risk and/or cash flow risk due to change in interest rates, according to the earlier of the payment dates or the date of renegotiation of the terms:

The Company's interest rate risk results mainly from long-term liabilities.

Consolidated:

		December 31, 2007						
Note	Average effective interest	Total	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	Over 5 years
		NIS thousands						
Fixed interest:								
Cash and cash equivalents	Dollar-linked	1.90	2,692	2,692	-	-	-	-
	CPI-linked		548	548	-	-	-	-
Bank deposits								
	Dollar-linked	4	4.80	6,107	-	-	-	-
	Unlinked	4	-	9,558	-	-	-	-
	Long-term deposits	9	4.95	3,846	1,396	2,300	150	-
Debentures held to maturity								
	Dollar-linked	9	8.25	7,692	-	7,692	-	-
Long-term loans from banks (including maturities)								
	Dollar-linked	16	7.65	7,746	-	7,746	-	-
	CPI-linked	16	4.52	1,344,367	282,904	214,643	846,820	-
Long-term loans from others								
	Dollar-linked	16	3.97	14,618	2,357	3,262	1,112	7,887
	Debentures issued – CPI-linked	16	4.75	1,634,775	-	-	410,572	244,839
Variable interest:								
Cash and cash equivalents								
	Dollar-linked		5.15	1,697,255	1,697,255	-	-	-
	Unlinked		4.7	216,917	216,917	-	-	-
Long-term deposits								
	Dollar-linked	9	4.2	92	-	-	92	-
	Investment in debentures and treasury notes	4		346,988	346,988	-	-	-
Short-term loans from banks								
	Dollar-linked	13	6.36	39,621	39,621	-	-	-
	Unlinked	13	6.00	243	243	-	-	-
Long-term loans from banks (including maturities)								
	Dollar-linked	16	6.70	15,384	7,692	7,692	-	-

Notes to the Financial Statements for the year ended December 31, 2007

Note 21 - Financial Instruments and Linkage Terms of Monetary Balances (cont'd)

E. Interest rate risk (cont'd)

Company:

		December 31, 2007						
Note	Average effective interest	Total	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	Over 5 years
NIS thousands								
Fixed interest								
		69,446	18,585	41,486	9,375	-	-	-
	4.80%							
		7,692	-	7,692	-	-	-	-
	8.25%							
		7,746	-	7,746	-	-	-	-
	7.65%							
		1,344,367	282,904	214,643	846,820	-	-	-
	4.52%							
		1,634,775	-	-	410,572	-	244,839	979,364
	4.75%							
Variable interest								
		216,917	216,917	-	-	-	-	-
	4.70%							
		1,472,222	1,472,222	-	-	-	-	-
	5.20%							
		346,988	346,988	-	-	-	-	-
	4							
		December 31, 2006						
Note	Average effective interest	Total	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	Over 5 years
NIS thousands								
Fixed interest								
		39,307	39,307	-	-	-	-	-
	5.82							
		9,213	-	-	9,213	-	-	-
	8.25							
		8,509	-	-	8,509	-	-	-
	7.65							
		292,070	-	179,182	112,888	-	-	-
	4.95							
		988,482	-	-	-	394,278	-	594,204
	5.06							
Variable interest								
		238,207	238,207	-	-	-	-	-
	4.5							
		345,400	345,400	-	-	-	-	-
	4							

Notes to the Financial Statements for the year ended December 31, 2007

Note 21 - Financial Instruments and Linkage Terms of Monetary Balances (cont'd)

F. Linkage terms of monetary balances

Company balance sheet

Sensitivity analysis

As part of management of the interest and currency risks, the Company and its subsidiaries strive to reduce the impact of interest and currency fluctuations on their results of operations. As at the signing date of the financial statements, the Company does not hedge against changes in the exchange rate of the US dollar.

As at December 31, 2007, the Company estimates that an increase of 1% in the interest rate will give rise to a pre-tax increase in the fair value of its assets and liabilities in the amount of NIS 22 million for the year ended December 31, 2007.

As at December 31, 2007, the Company estimates that an increase of 1% in the CPI will give rise to a decrease in its pre-tax earnings of NIS 28 million for the year ended December 31, 2007.

In addition, as at December 31, 2007, the Company estimates that an increase of 1% in the exchange rate of the US dollar will give rise to an increase in pre-tax earnings of NIS 17 million for the year ended December 31, 2007.

Note 22 - Guarantees

- A. Guarantees to banks and others for loans and for securing credit lines and other guarantees given in favor of:

	Consolidated		Company	
	December 31		December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Subsidiaries (1)	⁽³⁾ 147,082	⁽²⁾ 135,729	191,311	1,252,834
Others	-	5,200	-	40
	147,082	140,929	191,311	1,252,874

- (1) Includes NIS 113 million (NIS 110 million in 2006) that Koor granted to Bezeq in connection with Bezeq's agreement to transfer ownership of the public switching activities to a third party.
- (2) Excluding guarantees in the amount of NIS 1,117 million furnished to banks in respect of loans of subsidiaries consolidated in these financial statements, of which NIS 1,028 million relates to a wholly-owned subsidiary.
- (3) Excluding guarantees of NIS 44 million furnished to banks for loans of subsidiaries consolidated in these financial statements.

- B. M-A Industries and its subsidiary have committed to indemnify, if certain conditions are fulfilled, financial institutions for credit received by the subsidiary's customers from those financial institutions and which were used to repay the debts of these customers to the subsidiary for sales to those customers.

The indemnity commitment as at the balance sheet date is \$81 million.

Notes to the Financial Statements for the year ended December 31, 2007

Note 23 - Data concerning Items in Statements of Operations

A. Revenues from sales and services, net – consolidated:

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
Domestic:			
Industrial operations	5,385	6,710	24,580
Trading operations	9,337	10,068	9,755
Abroad:			
Industrial operations - export and international operations	203,813	253,674	427,853
Trading operations	-	-	-
Total	<u>218,535</u>	<u>270,452</u>	<u>462,188</u>

B. Cost of sales and services - consolidated:

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
Industrial operations:			
Materials and subcontracted work	135,250	123,958	248,829
Labor	29,138	29,481	96,522
Depreciation and amortization	6,582	2,611	11,908
Research and development, net (*)	23,155	30,944	924
Other	13,199	14,702	29,360
	<u>207,324</u>	<u>201,696</u>	<u>394,689</u>
Less - costs charged to fixed assets	(14,877)	-	-
	<u>192,447</u>	<u>201,696</u>	<u>394,689</u>
(Decrease) increase in finished goods inventory	941	(3,335)	(2,660)
	<u>193,388</u>	<u>198,361</u>	<u>392,029</u>
Increase in inventory of finished goods		11,736	(13,335)
	<u>(1,086)</u>	<u>210,097</u>	<u>378,694</u>
(*) Includes royalties paid, net of grants and participations that were, net	-	-	924

Notes to the Financial Statements for the year ended December 31, 2007

Note 23 - Data concerning Items in Statements of Operations (cont'd)

C. Selling and marketing expenses - consolidated:

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
Salaries	24,092	25,630	29,253
Commissions	5,012	5,839	16,462
Advertising expenses	1,973	753	1,835
Depreciation and amortization	193	216	596
Other	13,211	14,877	21,006
	44,481	47,315	69,152

D. General and administrative expenses:

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2007	2006	2005	2007	2006	2005
	NIS thousands					
Salaries	17,834	54,269	42,764	9,776	44,116	28,576
Bad and doubtful debts	390	203	174	-	-	-
Depreciation and amortization	255	1,969	2,821	247	1,145	1,283
Professional fees	5,992	9,074	20,386	5,992	9,074	20,386
Contributions	11,015	1,465	856	11,015	1,465	856
Other	18,222	20,534	35,383	8,533	9,973	7,583
	53,708	87,514	102,384	35,563	65,773	58,684

Notes to the Financial Statements for the year ended December 31, 2007

Note 23 - Data concerning Items in Statements of Operations (cont'd)

E. Financing expenses, net:

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2007	2006	2005	2007	2006	2005
	NIS thousands					
In respect of debentures	93,455	30,279	26,512	93,455	30,279	26,512
In respect of long-term loans	99,222	27,512	121,906	30,360	27,129	122,391
In respect of short-term loans and credit	7,069	6,429	25,883	1,869	2,483	23,800
In respect of derivative financial instruments	(14,490)	21,291	-	(14,490)	21,291	10,558
Gains from marketable securities, net	(50,492)	(20,632)	(27,549)	(50,236)	(18,275)	(25,540)
Expenses (income) from deposits and others, net	57,589	32,601	(7,762)	3,737	(11,525)	(12,885)
	192,353	97,480	138,990	64,695	51,382	144,836

Notes to the Financial Statements for the year ended December 31, 2007

Note 23 - Data concerning Items in Statements of Operations (cont'd)

F. Other income (expenses), net

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
1 Consolidated:			
Sale of investments and activities in investees	588,450	80,136	307,673
Expenses relating to discontinuation of operations and write-down of assets, net	(15,305)	-	(68,392)
Supplemental severance pay and pensions	-	-	(38,533)
Management services from affiliated companies	2,007	5,991	4,395
Dividend	-	6,509	-
Revaluation of investment real estate	3,600	-	-
Miscellaneous, net	(1,789)	6,856	8,915
	<u>576,963</u>	<u>99,492</u>	<u>214,058</u>
2. Company:			
Profit from sale of investments in investee companies	64,520	48,745	424,261
Write-down in value of long-term assets	7,671	7,515	7,202
Rental income, net*	3,600	-	-
Loss from sale of fixed assets	(4)	(453)	(7)
Dividend	-	6,921	10,389
Miscellaneous, net	(4,218)	(814)	(3,712)
	<u>71,569</u>	<u>61,914</u>	<u>438,133</u>
* Depreciation included in the item	-	760	760

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

1. Consolidated:

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
Affiliated companies, net	335,200	2,453	428,088
Amortization of excess cost	(40,041)	(40,008)	(66,957)
	<u>295,159</u>	<u>(37,555)</u>	<u>361,131</u>

2. Company:

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
Equity of Koor in operating results	679,669	35,417	190,942
Amortization of excess cost	(33,270)	(28,323)	(60,499)
Total (1)	<u>646,399</u>	<u>7,094</u>	<u>130,443</u>

Notes to the Financial Statements for the year ended December 31, 2007**Note 24 - Discontinued Operations****1. Elisra Electronic Systems Ltd. ("Elisra")**

In November 2005, the transaction for the sale of Elisra to Elbit was closed, in accordance with the agreements from July 6, 2005. See Note 3D(1).

Following are the results of operations of the discontinued operation, as included in the financial statements for the year ended December 31:

	<u>2005</u>
	<u>NIS thousands</u>
Revenues and earnings	
Revenue from sales and services	969,235
Other income, net	142,734
	<u>1,111,969</u>
Costs and losses	
Cost of sales and services	894,249
Selling and marketing expenses	91,817
General and administrative expenses	50,996
Finance expenses, net	3,271
Finance expenses, net	
	<u>1,040,333</u>
Earnings before income tax	71,636
Income tax	(15,874)
	<u>55,762</u>
Minority interest in subsidiaries' results, net	44,116
	<u>44,116</u>
Net earnings for the year	<u>99,878</u>

Notes to the Financial Statements for the year ended December 31, 2007**Note 24 - Discontinued Operations (cont'd)****2. Koor Trade Ltd.**

During August 2005, a valuation of an affiliated company of Koor Trade Ltd. was conducted, in order to examine the necessity of writing down the value of the affiliated company in the financial statements of Koor Trade Ltd. as prescribed by the Israel Accounting Standards Board Accounting Standard No. 15. The valuation was performed by an independent external expert and as a result, Koor Trade Ltd. included an impairment loss of approximately NIS 44 million in 2005.

In 2005, the Group's Board of Directors granted the Company's management the authority to sell the Group's entire holding in Koor Trade Ltd. The Company recorded an additional impairment provision of approximately NIS 20 million on its investment in Koor Trade, based on indicators relating to the fair value of the investment, including a valuation by an external valuation expert.

On April 25, 2006, the Company signed an agreement for the sale of its entire holdings in Koor Trade, including shareholder loans, to a group of managers, including one of the Company's senior executives, for \$8.3 million. The transaction was completed in the second quarter of 2006, and the entire cash proceeds of \$8.3 million were received. In the event that the buyers sell their holding in Koor Trade or a certain affiliated company of Koor Trade during a three-year period, at a price that exceeds the sale price (or the price fixed in the agreement of the value of the aforesaid affiliated company), the sale price will be increased according to the formula stipulated in the agreement.

Following the resolution of the Company's Board of Directors from 2005 to sell Koor Trade, Koor Trade has been presented as a discontinued operation commencing from the Company's financial statements for the year ended December 31, 2005.

The sale of Koor Trade did not have a significant impact on the Company's financial results.

Following are the results of operations of the discontinued operation, as included in the financial statements, for the year ended December 31:

	<u>2006</u>	<u>2005</u>
	<u>\$ thousands</u>	
Revenues		
Revenue from sales and services	41,203	157,171
Group's equity in losses of affiliates, net	-	(33,674)
Other income, net	4,599	-
	<u>45,802</u>	<u>123,497</u>
Expenses		
Cost of sales and services	27,309	110,160
Selling and marketing expenses	7,431	28,827
General and administrative expenses	4,495	11,524
Other expenses, net	2,840	18,068
Finance expenses, net	(318)	1,409
	<u>41,757</u>	<u>169,988</u>
Earnings (loss) before income tax	4,045	46,491
Income tax	(1,459)	(2,855)
	2,586	(49,346)
Minority interest in subsidiaries' results, net	(253)	(151)
Net earnings (loss) for the year	<u>2,333</u>	<u>(49,497)</u>

Note 24 - Discontinued Operations (cont'd)

Notes to the Financial Statements for the year ended December 31, 2007**3. Isram Wholesale Tours and Travel Ltd.**

On December 28, 2006 the Company sold its entire holding in Isram Wholesale Tours and Travel Ltd. ("Isram") for total consideration of \$1.26 million. The Company recorded a capital gain of approximately NIS 8 million in respect of the sale. Pursuant to the sale, Isram has been presented as a discontinued operation.

Following are the results of operations of the discontinued operation, as included in the financial statements, for the year ended December 31:

	<u>2006</u>	<u>2005</u>
	<u>\$ thousands</u>	
Revenues		
Revenue from sales and services	253,473	254,751
Other income, net	8,001	-
	<u>261,474</u>	<u>254,751</u>
Expenses		
Cost of sales and services	219,573	219,499
Selling and marketing expenses	5,143	4,996
General and administrative expenses	23,413	24,713
Finance income, net	-	417
Other expenses	(262)	936
	<u>247,867</u>	<u>250,561</u>
Earnings before income tax	13,607	4,190
Income tax	(5,240)	(722)
	8,367	3,468
Minority interest in subsidiaries' results, net	(226)	(1,040)
	<u>8,141</u>	<u>2,428</u>
Net earnings for the year	<u>8,141</u>	<u>2,428</u>

Notes to the Financial Statements for the year ended December 31, 2007**Note 24 - Discontinued Operations (cont'd)****4. Sheraton Moriah (Israel) Ltd. ("Sheraton")**

On April 26, 2007 the Company closed the sale of its entire 56.5% shareholding in Sheraton to Azorim Tourism Ltd. See Note 3D. Pursuant to the sale, Sheraton has been presented as a discontinued operation as at the financial statements of the Company for March 31, 2007.

Following are assets and liabilities relating to the discontinued operation as at:

	Year ended December 31 2006
	Audited
	NIS thousands
Assets related to discontinued operation:	
Cash and cash equivalents	35,611
Trade receivables	49,031
Other accounts receivable	17,935
Inventories	3,409
Investments in affiliates	2,043
Other investments	23,184
Fixed assets, net	665,870
Other assets, deferred tax assets and deferred expenses, net	17,562
	<u>814,645</u>
Liabilities related to discontinued operation:	
Liabilities to banks and others	20,167
Trade payables	27,372
Other payables	29,907
Customer advances	3,262
Long-term bank loans	569,759
Liability for employee severance benefits, net	4,102
Deferred tax liabilities	10,977
Minority interest	72,175
	<u>737,721</u>

Notes to the Financial Statements for the year ended December 31, 2007

Note 24 - Discontinued Operations (cont'd)

4. Sheraton Moriah (Israel) Ltd. ("Sheraton") (cont'd)

Following are the results of operations of the discontinued operation, as included in the financial statements for the:

	Year ended December 31 2007	Year ended December 31 2006	Year ended December 31 2005
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Revenues			
Revenue from sales and services	69,690	312,801	271,443
Company's equity in the operating results of affiliated companies	360	1,006	(1,769)
Other income	13,678	4,714	9,564
	<u>83,728</u>	<u>318,521</u>	<u>279,238</u>
Expenses			
Cost of sales and services	56,373	227,622	203,464
Selling and marketing expenses	3,553	16,231	14,998
General and administrative expenses	10,112	47,087	38,256
Other expenses	102	-	
Finance expenses, net	5,188	16,455	43,031
	<u>75,328</u>	<u>307,395</u>	<u>299,749</u>
Earnings (loss) before income tax	8,400	11,126	(20,511)
Income tax	(568)	(4,698)	(2,583)
	<u>7,832</u>	<u>6,428</u>	<u>(23,094)</u>
Minority interest in subsidiaries' results, net	<u>2,523</u>	<u>(2,984)</u>	<u>10,063</u>
Net (loss) earnings for the period	<u><u>10,355</u></u>	<u><u>3,444</u></u>	<u><u>(13,031)</u></u>

Notes to the Financial Statements for the year ended December 31, 2007

Note 25 - Business Segments

A. The Koor Group operates in the following business segments:

The Group's agrochemical activities are carried out through M-A Industries considered one of the world's foremost manufacturers of generic crop protection solutions. M-A Industries produces a full range of products, including insecticides, fungicides and herbicides, as well as plant growth regulators. In addition, M-A Industries is engaged in specialty aroma chemicals and other different kinds of chemicals.

Most of the Group's telecommunication activities are focused in three companies – ECI Telecom Ltd., an affiliated company (until the end of the third quarter of 2007), that provides solutions for broadband access networks and transmission optical networks, ECtel Ltd., an affiliated company as at the third quarter of 2006 that provides solutions for revenue management and fraud prevention at telecom providers, and Telrad Networks Ltd., which develops and markets telecom products and provides end-user solutions and appears as an affiliated company as at the end of the second quarter of 2005. In addition, the telecommunications segment includes two subsidiaries that develop and market equipment in the fields of microwave and cellular communications.

Activities in venture capital investments are carried out through the Koor Corporate Venture Capital partnership, which invests in high-tech companies and venture capital funds with high growth potential. Most of the investments are in the fields of communication and life sciences.

B. Segment sales include products sold and services rendered to unrelated customers, which are not part of the group.

Inter-segment sales are immaterial and are based primarily on prices determined in the ordinary course of business. Accordingly, these sales are not presented separately.

Segment operating earnings include all costs and expenses directly related to the relevant segment and for those that benefit more than one segment, are charged on a proportionate basis. Identifiable assets and liabilities by industry segments are those that are used by Koor in its activities in each segment.

C. Data regarding business segments of the Koor Group - consolidated:

	Year ended December 31		
	2007	2006(1)	2005(2)
	\$ thousands		
Sales and projects carried out			
Telecommunications equipment	452,433	260,384	452,433
Others	9,755	10,068	9,755
Total segments	462,188	270,452	462,188

(1) Reclassified for discontinued operations – See Note 24(4).

(2) Reclassified for discontinued operations – See Note 24.

Notes to the Financial Statements for the year ended December 31, 2007

Note 25 - Business Segments (cont'd)

C. Data regarding business segments of the Koor Group (cont'd):

	Year ended December 31		
	2007	2006(1)	2005(2)
	\$ thousands		
Earnings (losses) before income tax:			
Telecommunications equipment	531,360	(121,613)	(33,517)
Defense electronics	-	-	56,180
Agro-chemicals	223,081	65,925	557,824
Venture capital investments	11,371	39,585	(41,472)
Others	57,211	11,816	(5,006)
Total segments	823,023	(4,287)	534,009
Joint general expenses, net	(22,857)	(8,250)	(46,862)
Financing expenses, net	(192,353)	(97,480)	(138,990)
Earnings (losses) before income tax	607,813	(110,017)	348,157

The Koor Group's equity in the results of investee companies, net:

	Year ended December 31		
	2007	2006(1)	2005(2)
	\$ thousands		
Telecommunications equipment	61,092	(106,781)	27,050
Defense electronics	-	-	(23,288)
Agro-chemicals	223,081	65,925	359,200
Venture capital investments	-	(4,739)	(755)
Others	10,986	8,040	(1,076)
	295,159	(37,555)	361,131

(1) Reclassified for discontinued operations – See Note 24(4).

(2) Reclassified for discontinued operations – See Note 24.

Notes to the Financial Statements for the year ended December 31, 2007

Note 25 - Business Segments (cont'd)

C. Data regarding business segments of the Koor Group (cont'd)

	Year ended December 31	
	2007	2006
	NIS thousands	
Identifiable assets		
Telecommunications	126,456	124,830
Venture capital investments	91,243	169,831
Others	52,774	10,758
Total	270,473	305,419
Joint assets	2,533,060	1,061,590
Affiliated companies *	2,610,375	3,322,177
Assets relating to discontinued operations	-	814,645
	5,413,908	5,503,831
* Investments in affiliated companies are as follows:		
Telecommunications	65,712	801,975
Venture capital investments	-	37,547
Agro-chemicals	2,380,662	2,348,103
Others	164,001	134,552
	2,610,375	3,322,177

Notes to the Financial Statements for the year ended December 31, 2007

Note 25 - Business Segments (cont'd)

C. Data regarding business segments of the Koor Group - consolidated (cont'd)

	Year ended December 31	
	2006	2005
	NIS thousands	
Identifiable liabilities		
Telecommunications	81,470	58,400
Venture capital investments	2,819	1,056
Others	25,146	9,174
Total segments	109,435	68,630
Joint liabilities	82,097	102,846
Financing commitments	3,056,754	2,368,923
Others	35,642	34,175
Liabilities relating to discontinued operations	-	737,721
	3,283,928	3,312,295

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
Capital investments:			
Telecommunications	23,086	3,365	7,529
Others	-	-	239
Total segments	23,086	3,365	7,768
Joint assets	5	200	177
	23,091	3,565	7,945
Depreciation and amortization:			
Telecommunications equipment	6,784	3,723	13,243
Total segments	6,784	3,723	13,243
Joint assets	247	1,905	1,954
	7,031	5,628	15,197

Notes to the Financial Statements for the year ended December 31, 2007

Note 25 - Business Segments (cont'd)

D. Revenues from sales and projects carried out by geographic destinations according to customer location

	Year ended December 31		
	2007	2006	2005
	\$ thousands		
North America	173,071	200,634	333,202
Europe	14,502	10,306	51,473
South America	5,314	23,670	10,558
Asia and Australia	10,766	5,481	17,486
Africa	160	13,583	15,134
Israel	14,722	16,778	34,335
	218,535	270,452	462,188

Note 26 - Related Parties and Interested Parties

A. Change in controlling shareholders of the Company

On May 1, 2006, Discount Investments Corp. Ltd., a subsidiary of IDB Development Corporation Ltd., signed an agreement to acquire from the Claridge Group ("Claridge"), as well as from Anfield Ltd. (a company registered in Israel and owned by Jonathan B. Kolber, Koor's former Chief Executive Officer ("CEO") and between August 2006 and August 2007 Chairman of the Board of Directors), and another company related to the family of Jonathan B. Kolber, all of Koor's shares held by those entities (totaling 5,753,207 shares, or approximately 34.9% of Koor's outstanding share) for \$445.8 million. All approvals, to which the transaction was subject, including Israel's anti-trust commissioner, have been granted. On July 3, 2006, this transaction closed and 5,081,033 of Koor's shares, or approximately 30.9% of Koor's outstanding shares, were transferred to Discount Investments Corp. for approximately \$394 million, and a put option, exercisable during December 2006, was granted to Anfield Ltd. in respect of the remaining 672,174 shares. Subsequent to the transfer of shares, all of Koor's directors resigned from the Board of Directors and new directors were appointed. Furthermore, Koor's CEO resigned and a new CEO was appointed. Discount Investments is held 74.2% by IDB Development, which also directly holds 10% of Koor's outstanding ordinary shares.

On September 28, 2006 Discount Investments completed a special tender offer, whereby it purchased an additional 890,000 shares, or approximately 5.4% of Koor's outstanding shares, from the public. On December 27-28, 2006 Discount Investments purchased an additional 1,004,453 shares, or approximately 6.1% of Koor's outstanding shares, from Jonathan B. Kolber and former directors and employees, as well as certain present employees.

In 2007, Discount Investments acquired an additional 807,072 shares, representing 4.8% of Koor's shares. Subsequent to the balance sheet date, Discount Investments acquired 452,854 shares, representing 2.7% of Koor's shares.

As at December 31, 2007 the Company's ultimate parent company, IDB Development Corp. Ltd., holds 56.6% of the Company's shares, directly and indirectly through Discount Investments. IDB Development Corp. Ltd. is a leading investment company in Israel, with a diversified investment portfolio encompassing a large number of companies in the Israeli economy ("IDB Group"). Subsequent to the change in control, companies in the IDB Group are related parties of the Company.

Notes to the Financial Statements for the year ended December 31, 2007

Note 26 - Related Parties and Interested Parties (cont'd)**B. Description of Transactions with Related Parties and Interested Parties**1. Ordinary transactions that are not exceptional

(1) To the best of the Company's knowledge, the Company and its subsidiaries have executed ordinary transactions, that are not exceptional, with interested parties, and have committed to execute such transactions, of the following types and with the following characteristics: transactions between the Company or its subsidiaries and banks and financial institutions that are interested parties as set forth in (2) below; insurance policies issued by Clal Insurance Company Ltd. ("Clal Insurance") or its subsidiary; transactions for the purchase of goods and services (such as communications and food products) executed by interested parties within the ordinary course of business with companies in the IDB Group that are engaged in the sale of such goods and services; purchase of shopping vouchers; transactions for the purchase of travel services from companies that are interested parties; financial advisory services; financial management by Clal Finances Mutual and Provident Fund Ltd. of funds deposited by employers and employees in mutual funds and provident funds.

(2) Epsilon Investment House Ltd. ("Epsilon") Clal Finances Betucha Investment Management Ltd. ("Clal Finances Betucha") and Clal Insurance Business Holdings Ltd are considered interested parties of companies within the Koor Group and related parties of the Company and of companies within the Koor Group. The Company and companies within the Koor Group, as well as interested parties in the Company, receive financial services from the abovementioned financial institutions, and companies owned by them. Furthermore, the Company and companies in the Koor Group, occasionally hold investment trust units managed by related parties, and manage securities accounts with Clal Finances Batucha.

2. Arrangements between the Company and its controlling shareholders

On September 1, 2006 the Company relocated its offices to the Triangular Tower at the Azrieli Center in Tel-Aviv, where other companies within the IDB Group are located.

In accordance with the agreement for the allocation of the costs of the office premises according to which all the IDB Group companies that are located in the Azrieli Center operate, IDB Development Ltd. (the Company's controlling shareholder in accordance with Section 268 of the Companies Ordinance – 1999), leases all the office premises at the Azrieli Center as the primary lessee of the IDB Group in respect of the entire group, receives the management and administration services of the Azrieli property management company for the entire group, and bears all the general expenses for other services to all of the companies in the group ("the leasing and management services"). According to this arrangement, each of the companies in the IDB Group that are located in the Azrieli Center participates in IDB Development's expenses for the leasing and management services, on a pro rata basis, as determined by the number of its employees relative to the total number of employees of the companies in the IDB Group that are located in the Azrieli Center. Participation in the expenses is based on the expenses borne by IDB Development Ltd. without a profit markup.

The Company's participation in this arrangement was approved by the Audit Committee of the Company's Board of Directors, by the Company's Board of Directors and by the extraordinary general shareholders' meeting of the Company.

Notes to the Financial Statements for the year ended December 31, 2007

Note 26 - Related Parties and Interested Parties (cont'd)**B. Description of Transactions with Related Parties and Interested Parties**3. Directors' and officers' insurance and indemnification and exemption of liability for officers

- (1) In 2007 the liability of officers of the Company and its subsidiaries was insured by Clal Insurance, a company controlled by the Company's controlling shareholders. The total insurance premium paid in 2007 by the Company and its subsidiaries covered by the policy amounted to approximately NIS 2,298 thousand. The transaction was approved by an extraordinary general meeting of the Company's shareholders as required by law.
- (2) The Company resolved in the past to indemnify, under certain circumstances, its officers (including previous officers) and its representatives on the boards of directors of its investee companies for any amount that they may incur within the framework of any legal proceeding against them in connection with their actions or omissions in fulfilling their duties as officers. The Company issued such letters of indemnification to certain of its officers (as well as previous directors).

Subsequent to publication of the Companies Ordinance (Amendment 3) – 2005, the Company updated its articles of association in accordance with this amendment. On December 28, 2006, following the approval of the Company's Audit Committee and Board of Directors, the Company's general shareholders' meeting approved the issuance of new letters of indemnification to the directors and officers of the Company (including controlling shareholders serving as directors or officers of the Company). Subsequent to the approval, the Company issued new letters of indemnification, whereby the Company committed to indemnify them in respect of any liability or expense set forth in the letter of indemnification (including financial liability towards a third party in accordance with a court ruling as well as legal expenses, as set forth in the letter of indemnification) that they may be charged with or that they may incur due to their actions in fulfilling their duties as officers of the Company and/or due to their fulfilling, at the Company's request, the roles of officers in another company, related to events set forth in the appendix to the letter of indemnification.

According to the letters of indemnification, the maximum amount of the indemnification that the Company may pay (in addition to amounts that may be received from insurers under the insurance purchased by the Company) for all the officers of the Company for a particular event, shall not exceed 25% of the Company's shareholders' equity according to its most recent annual or quarterly financial statements, prior to the payment of the indemnification amounts.

The liability of the Company's officers in fulfilling their duties is partially insured by insurance policies, including policies described in item 3(1) above.

Notes to the Financial Statements for the year ended December 31, 2007

Note 26 - Related Parties and Interested Parties (cont'd)**B. Description of Transactions with Related Parties and Interested Parties (cont'd)**4. Compensation of Members of the Board of Directors and Chief Executive Officer

(1) On August 1, 2006 Mr. Jonathan Kolber ceased to serve as the Company's Chief Executive Officer and began to serve as its active and full-time Chairman. On December 28, 2006, following the approval of the Company's Audit Committee on November 20, 2006 and Board of Directors on November 22, 2006, the Company's general shareholders' meeting approved Mr. Kolber's compensation package, which includes a monthly salary of NIS 120 thousand linked to the Israeli CPI, in respect of which the Company will deposit an additional 23.3% in executive insurance policies or other pension arrangements and provident funds in respect of social benefits. Mr. Kolber will also have at his disposal a company car and telephone, and the Company will bear the related taxes. The arrangement may be terminated by Mr. Kolber or by the Company at any time, subject to a three month advance notification period. Mr. Kolber will be entitled to an annual bonus to be decided upon by the Board of Directors, of no less than six and no more than twelve monthly salaries. This arrangement replaces the previous employment contract that was in effect since April 2003, and under which Mr. Kolber was granted a special retirement bonus of approximately NIS 8.4 million upon cessation of his employment as the Company's Chief Executive Officer. On August 16, 2007, Mr. Kolber ceased to serve as the Company's Chairman and with his resignation received a special bonus of NIS 451 thousand.

(2) On August 1, 2006 Mr. Ra'anan Cohen was appointed as the Company's CEO. Mr. Cohen is employed by Discount Investments. On June 11, 2007, a general meeting of the Company ratified the agreement between the Company and Discount Investments Ltd., whereby the employment costs of the CEO would be divided with the Company bearing 80% of the compensation expenses of the CEO. Prior to approval by the general I meeting, the agreement was ratified by the Company's Audit Committee and the Board of Directors.

(3) See Note 20C regarding options granted to interested parties.

(4) On September 24, 2007, the Company's General Shareholders' Meeting approved a one-time bonus to one of the directors of the Company in connection with the sale by the Company of its holding in Sheraton-Moriah to Azorim. The Company's share in the bonus amount to NIS 945 thousand. The bonus was approved by the Company's Audit Committee and Board of Directors prior to its approval by the General Shareholders' Meeting.

5. General and administrative expenses

Until the end of June 2006 the Company had agreements with Claridge for the receipt of consultancy services. These services included, inter alia, advice in respect of investment strategies, financial policies, international activities, strategic partnerships and company structuring. The agreements included instructions regarding the indemnification of the consultants in respect of claims connected to the consultancy, except for cases of gross negligence and/or intentional damage. In consideration for the consultancy the Company paid an annual sum not exceeding \$400,000.

Notes to the Financial Statements for the year ended December 31, 2007

Note 26 - Related Parties and Interested Parties (cont'd)

B. Description of Transactions with Related Parties and Interested Parties (cont'd)

6. Management services to subsidiaries and affiliates

The Company has agreements with certain of its subsidiaries and affiliates, whereby the Company receives management fees in respect of consultancy services provided to these companies.

The investees pay the Company annual management fees of 0.8% and 1% of sales. Furthermore, Makteshim-Agan paid the Company an annual management fee of \$2.5 million in accordance with a management fee agreement that ended in May 2006.

7. Transaction in which related party has an interest

See Note 3E(2) in connection with the sale of Sheraton-Moriah, that is linked with a sale by a company in the IDB Group.

C. Balances with related parties and interested parties

	Consolidated		Company	
	Year ended December 31		Year ended December 31	
	2007	2006	2007	2006
	NIS thousands		NIS thousands	
Receivables	-	-	-	1,686
Short-term loans to investee companies	-	-	23,228	39,308
Long-term loans, capital notes and non-current accounts with investee companies	83,688	82,709	85,464	38,699
Notes payable	1,132	1,132	679	21
Capital note payable to subsidiary	-	-	6,382	6,382
Highest balance of long-term loans, capital notes and long-term liabilities with investee companies during the year	85,942	84,118	79,082	1,243,098

Notes to the Financial Statements for the year ended December 31, 2007

Note 26 - Related Parties and Interested Parties (cont'd)

D. Summary of Transactions with Related Parties and Interested Parties

1. Consolidated:

	December 31		
	2007	2006	2005
	\$ thousands		
Revenues			
Management and directors' fees and from investee companies and their participation in other expenses	3,168	8,267	18,957
Interest	4,354	2,494	2,440
Office rental fees	-	-	7,200
Expenses			
Portfolio management commissions	3,954	3,266	-
Office rental expenses	1,620	1,630	366
Directors' and officers' insurance	3,073	3,263	2,326
Management fees to interested parties	-	649	1,830
Bonus to interested party employed by Company	-	15,617	4,764
Bonus to interested party not employed by Company	2,733	866	-
Directors' fees	694	572	665
Other transactions			
Deferred debenture issue costs	962	793	-
Guarantee commissions	-	355	-

Number of directors: in 2007 – 12, 2006 – 20 *; in 2005 – 9; in 2004 – 10 *.

* including directors replaced during the year.

Notes to the Financial Statements for the year ended December 31, 2007

Note 26 - Related Parties and Interested Parties (cont'd)

D. Summary of Transactions with Related Parties and Interested Parties (cont'd)

2. Company:

	December 31		
	2007	2006	2005
	\$ thousands		
Income			
Management and directors' fees and from investee companies and their participation in other expenses	2,668	7,767	20,367
Interest	4,209	3,025	3,735
Office rental fees	-	-	7,200
Expenses			
Interest	-	66	3,777
Portfolio management commissions	3,954	3,266	-
Office rental expenses	1,620	1,630	732
Insurance (including directors' and officers' insurance from 2005)	3,073	3,772	3,042
Management fees to interested parties	2,608	649	1,830
Bonus to interested party employed by Company	-	15,617	4,764
Bonus to interested party not employed by Company	2,733	866	-
Directors' fees	694	572	665
Other transactions			
Deferred debenture issue costs	962	793	-
Guarantee commissions	-	355	-

Number of directors: in 2006 – 20 *; in 2005 – 9; in 2004 – 10 *.

* including directors replaced during the year.

Notes to the Financial Statements for the year ended December 31, 2007

Note 27 - Earnings Per Share

1. Basic earnings (loss) per share:

	For the year ended December 31		
	2007	2006	2005
	\$ thousands		
Net earnings (loss) for the year:			
From continuing operations	609,938	(113,674)	257,842
Adjustment in respect of equity in operating results of affiliates	(8,145)	8,521	3,214
	601,793	(105,153)	261,056
From discontinued operations		10,474	52,809
From cumulative effect of change in accounting method	10,355		
	-	62,522	(3,054)
	612,148	(32,127)	310,811
	December 31		
	2007	2006	2005
	\$ thousands		
Weighted average number of ordinary shares:			
As at January 1	16,567,070	16,146,668	15,824,185
Shares resulting from exercise of stock options	28,865	250,654	84,720
Shares issued during the year	-	-	120,768
Weighted average number of ordinary shares for the calculation of basic earnings (loss) per share	16,595,935	16,397,322	16,029,673

2. Diluted earnings (loss) per share:

The diluted earnings (loss) per share are calculated according to the earnings (loss) for the year, divided by the weighted average number of ordinary shares outstanding, as well as all potentially dilutive ordinary shares.

	For the year ended December 31		
	2007	2006	2005
	\$ thousands		
Net earnings (loss) for the year:			
From continuing operations	609,938	(113,674)	257,842
Adjustment in respect of equity in operating results of affiliates	(9,521)	(301)	(32,066)
	600,417	(113,975)	225,776
From discontinued operations	10,355	10,474	52,809
From cumulative effect of change in accounting method	-	62,552	(3,054)
	610,772	(40,949)	275,531

Notes to the Financial Statements for the year ended December 31, 2007**Note 27 - Earnings Per Share (cont'd)****2. Diluted earnings per share (cont'd)**

	December 31		
	2007	2006	2005
	\$ thousands		
Weighted average number of ordinary shares:			
Weighted average number of ordinary shares for the calculation of basic earnings (loss) per share	16,595,935	16,397,322	16,029,673
Shares issued as a result of exercise of options	28,976	-	513,935
Weighted average number of ordinary shares for the calculation of diluted earnings (loss) per share	<u>16,624,911</u>	<u>16,397,322</u>	<u>16,543,608</u>

Note 28 - Events Subsequent to the Balance Sheet Date

1. See Note 3A(8) regarding the sale of M-A Industries shares subsequent to the balance sheet date.
2. Subsequent to the balance sheet date, the board of directors of M-A Industries resolved to distribute a dividend totaling \$120,000. The Company's shares in the said dividend is expected to total \$46 million.
3. Subsequent to the balance sheet date, the board of directors of M-A Industries resolved to buy-back shares of M-A Industries at an amount not to exceed \$100 million.
4. As at the approval date of these financial statements, Koor does not hedge against exposure related to the shekel value of foreign currency-assets and/or against indirect exposure that impact the performance of investee companies. However, it is possible that in the future, Koor will hedge against this exposure.

Subsequent to the balance sheet date and proximate to the approval date of these financial statements, the exchange rate of the dollar fell by 9.7%, from NIS 3.846 to NIS 3.474 to US\$1. In the Company's estimation, at this stage, this decline generates a cumulative loss, on the net balances denominated in or linked to the U.S. dollar, from the beginning of the first quarter of 2008 until proximate to the approval date of these financial statements of NIS 165 million. The calculation is based on the assumption that there has not been a material change in the balances of assets and liabilities, including trade payables and trade receivables. The above data include preliminary estimates and partial data that Koor has as of the present time. This estimation does not take into account, inter alia, the effect – positive or negative – of a change in the exchange rate on the profitability of investee companies that operate in or report in the dollar, nor the effect on Koor's earnings of the losses of investee companies from their holding of dollar assets, and does not relate to the effect of the exchange rate on Koor's shareholders' equity, including the reserve for translation of the foreign currency financial statements of the investee companies. These data have not yet been processed, examined on a final basis nor reviewed by Koor's auditors, and they are subject to additional changes in these exchange rate until the end of the quarter. Therefore, it is likely that there aforesaid could change.

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)
A. Guidelines of Accounting Standard No. 29 regarding Adoption of International Financial Reporting Standards (IFRS).

In accordance with Accounting Standard No. 29 regarding "Adoption of International Financial Reporting Standards (IFRS) ("Standard 29"), the Company is required to prepare its financial statements according to International Financial Reporting Standards ("IFRS Standards") as from reporting periods commencing January 1, 2008. The opening balance sheet in accordance with IFRS Standards will be as at January 1, 2007 (the Company's transition date to IFRS Standards). The first-time adoption of IFRS Standards will be done while applying the provisions of IFRS No. 1, "First-time Adoption of IFRS Standards", for transition purposes.

B. Application of the provisions of IFRS Standard 1 regarding first-time adoption of IFRS Standards and the election of exemptions under the Standard on the transition date

IFRS 1 provides that application of IFRS Standards in the opening balance sheet as at the transition date will be done retroactively.

To ease the first-time application, several matters were provided that are not subject to the requirement for retroactive application in the opening balance sheet, while providing the opportunity to evaluate utilization of the exemptions, in full or in part. Likewise, several exceptions were provided with respect to the retroactive application of certain aspects of IFRS Standards.

Presented below are exemptions that the Company elected according to IFRS 1, for which the Company is not retroactively applying the transition to IFRS reporting:

1. **Business combinations** – The Company did not retroactively apply IFRS 3, which deals with business combinations. Therefore, goodwill and excess cost arising from business combinations that occurred before the transition date, with respect to the acquisition of subsidiaries, including proportionately consolidated subsidiaries, were not treated in accordance with IFRS 3, but were stated as in accordance with Israeli GAAP.
2. **Translation differences from overseas operations** – The Company did not recognize cumulative translation differences as at January 1, 2007 for all overseas operations. Therefore, the capital reserve from adjustments for translation of financial statements of all overseas operations, as at the transition date, is zero.
3. **Share-based payments** – IFRS 2, which discusses share-based payment, transactions was not applied for capital instruments granted before November 7, 2002 or that were granted after the said date and vested before the transition date. Regarding share-based payments that were settled in cash, the Company elected not to apply IFRS 2 for liabilities that were repaid before the transition date.
4. **Fixed assets** – The Company elected to measure fixed assets at their value in accordance with Israeli GAAP as deemed cost on the transition date.
5. **Investment real estate** – The Company elected to measure investment real estate according to fair value as deemed cost on the transition date.
6. **Designation of financial instrument recognized in the past** – On the transition date, the Company designated financial instruments (that fulfill certain conditions in accordance with International Accounting Standard IAS 39), which deals with the recognition and measurement of financial instruments) to the category of financial assets measured at fair value through gain/loss since no such designation was made on the first date of recognition (i.e. on the purchase date of the financial instrument).

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)**C. Reconciliation between reporting according to Israeli GAAP and reporting according to IFRS Standards**

In accordance with Standard 29 and the Interpretation of the Israeli Securities Authority (FAQ 6), the Company is obligated to include in the notes to its annual financial statements for the year ended December 31, 2007, the consolidated balance sheet data as at December 31, 2007 and January 1, 2007, and the consolidated income statement data for the year ended December 31, 2007, when they are prepared in accordance with IFRS Standards.

The tables below present the accounting effects of the application of IFRS Standards on the consolidated balance sheet items as at December 31, 2007 and January 1, 2007, on the Company's shareholders' equity as at the said dates and the consolidated statement of income of the Company for the year 2007.

In choosing the alternatives and exemptions on the transition date, the factors taken into account include the nature of the Group as a holding company, and accordingly, the alternatives and exemptions were chosen which management believes best reflect the transactions executed by the Group and its financial position, considering that the consolidated financial statements of a holding company includes operations having significantly different characteristics.

This note was prepared based on International Financial Reporting Standards and their clarifications (hereinafter – "IFRS Standards") known at the present time, which were published and take effect or may be adopted in early adoption on the Group's first annual financial reporting date according to IFRS, December 31, 2008, on the basis of which the accounting policies of the Company were determined. IFRS Standards that will be in effect or may be adopted in the annual financial statements for the year ended December 31, 2008 are subject to changes and to the publication of additional clarifications, and therefore there is still no absolute certainty regarding their provisions and stipulations. Accordingly, the accounting policies applied for the period presented will be determined finally only when the initial financial statements are prepared according to IFRS as at December 31, 2008.

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)**Table A – Adjustments following transition to IFRS Standards on the Company's consolidated balance sheet as at 31.12.2007 (NIS thousands)**

Details	Israel GAAP	Capital reserve for translation differences and other reserves	Employee benefits	Available for sale financial instruments	Derivative financial instruments and accounting hedge	Deferred income from inter- company sales	Split of embedded securities that were issued including capital instruments and liabilities	Share based payment transactions	Land leased from Israel Lands Admini- stration	Liability to Chief Scientist for government grants	Functional currency	Other	Total IFRS Standards
		3	4	5	6	7	8	9	10	12	14		
Current assets													
Cash and cash equivalents	1,917,412	-	-	-	-	-	-	-	-	-	-	-	1,917,412
Short-term deposits and investments	457,590	-	-	-	-	-	-	-	-	-	-	-	457,590
Trade receivables	40,236	-	-	-	-	-	-	-	-	-	-	-	40,236
Other receivables	63,713	-	-	-	4,174	-	-	-	-	-	-	-	67,887
Current tax assets	2,385	-	-	-	-	-	-	-	-	-	-	(2,385)	-
Inventories	57,628	-	-	-	-	-	-	-	-	-	-	-	57,628
Long-term investments and receivables													
Investments in affiliated companies	2,610,375	-	(37,425)	-	(27,435)	34,656	-	(361)	(7,179)	(8,065)	(1,459)	11,044	2,574,151
Other investments and receivables	128,712	-	(379)	321	-	-	-	-	-	-	-	-	128,654
Investment property	111,880	-	-	-	-	-	-	-	-	-	-	-	111,880
Fixed assets	7,851	-	-	-	-	-	-	-	-	-	-	-	7,851
Intangible assets	16,126	-	-	-	-	-	-	-	-	-	-	-	16,126
Total assets	5,413,908	-	(37,804)	321	(23,261)	34,656	-	(361)	(7,179)	(8,065)	(1,459)	8,659	5,379,415

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)

Table A – Adjustments following transition to IFRS Standards on the Company's consolidated balance sheet as at 31.12.2007 (NIS thousands)

Details	Israel GAAP	Capital reserve for translation differences and other reserves	Employee benefits	Available for sale financial instruments	Derivative financial instruments and accounting hedge	Deferred income from inter- company sales	Split of embedded securities that were issued including capital instruments and liabilities	Share based payment transactions	Land leased from Israel Lands Admini- stration	Liability to Chief Scientist for government grants	Functional currency	Other	Total IFRS Standards
		3	4	5	6	7	8	9	10	12	14		
Current liabilities													
Credit from banks and others	(330,460)	-	-	-	-	-	-	-	-	-	-	-	(330,460)
Trade payables	(54,515)	-	-	-	-	-	-	-	-	-	-	-	(54,515)
Other payables	(164,259)	-	-	-	(252)	-	-	-	-	-	-	-	(164,511)
Customer advances	(6,015)	-	-	-	-	-	-	-	-	-	-	-	(6,015)
Long-term liabilities													
Financial liabilities	(2,726,294)	-	-	-	-	-	(60,390)	-	-	-	-	-	(2,786,684)
Deferred taxes	(2,385)	-	-	-	-	-	-	-	-	-	-	2,385	-
Liability for employee severance benefits, net	-	-	(267)	-	-	-	-	-	-	-	-	-	(267)
Shareholders' equity													
Share capital	(564,515)	-	-	-	-	-	-	-	-	-	-	-	(564,515)
Premium on shares	(2,254,860)	-	-	-	-	-	15,909	-	-	-	-	-	(2,238,951)
Retained earnings	579,461	(98,427)	38,071	(965)	23,513	(34,656)	44,481	(2,412)	7,179	8,065	1,459	(11,044)	554,725
Reserves from translation differences	437,866	(226,615)	-	-	-	-	-	-	-	-	-	-	211,251
Capital reserves for available-for-sale securities	-	-	-	644	-	-	-	-	-	-	-	-	644
Capital reserve for share-based payment	(2,773)	-	-	-	-	-	-	2,773	-	-	-	-	-
Other capital reserve	(325,042)	325,042	-	-	-	-	-	-	-	-	-	-	-
Total shareholders' equity allocated to Company's shareholders	(2,129,863)												(2,036,846)
Minority interest	(117)	-	-	-	-	-	-	-	-	-	-	-	(117)
Total liabilities and shareholders' equity	(5,413,908)		37,804	(321)	23,261	(34,656)		361	7,179	8,065	1,459	(8,659)	(5,379,415)

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)

Table B – Adjustments following transition to IFRS Standards on the Company's consolidated balance sheet as at 1.1.2007 (NIS thousands)

Details	Effects expressed in adoption of new Accounting Standards In Israel in 2007		Other effects													Total IFRS Standards		
	According to Israel GAAP	Re-establishment of research and development costs acquired in business combination	Capital reserve for translation differences and other reserves	Employee benefits	Available for sale financial instruments	Derivative financial instruments and accounting hedge	Deferred income from inter-company sales	Split of embedded securities that were issued including capital instruments and liabilities	Share based payment transactions	Land leased from Israel	Lands Administration	Minority interest	Liability to Chief Scientist for Government grants	Timing of recognition of gain from sale of shares	Functional currency		Deferred taxes on land acquired in a business combination	Other
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15			
Current assets																		
Cash and cash equivalents	241,586	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	241,586
Short-term deposits and investments	695,931	-	-	-	-	-	-	-	-	-	-	-	201,159	-	-	-	-	494,772
Trade receivables	33,010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,010
Other receivables	64,280	-	-	-	-	-	-	-	-	-	-	-	239,340	-	-	-	-	303,620
Current tax assets	241	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(241)	-
Inventories	62,319	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	62,319
Long-term investments and receivables																		
Investments in affiliated companies	3,322,177	31,696	1,728	-	(27,815)	604	(4,991)	34,981	-	(3,232)	(7,969)	-	(98,586)	-	2,491	-	12,040	3,263,124
Other investments and receivables	179,488	-	-	-	202	(4,660)	-	-	-	-	-	-	-	-	-	-	-	175,030
Investment property	-	108,280	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	108,280
Fixed assets	89,608	(80,080)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,528
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	207	207
Intangible assets	546	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	546
Assets allocated to discontinued operations	814,645	-	-	-	-	-	-	-	-	(12,115)	-	-	-	-	-	-	-	802,530
Total assets	5,503,831	59,896	1,728	-	(27,613)	(4,056)	(4,991)	34,981	-	(3,232)	(20,084)	-	(98,586)	38,181	2,491	-	12,006	5,494,552

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)

Table B – Adjustments following transition to IFRS Standards on the Company's consolidated balance sheet as at 1.1.2007 (NIS thousands)

Details	Effects expressed in adoption of new Accounting Standards In Israel in 2007				Other effects											Total IFRS Standards		
	According to Israel GAAP	Re-establishment of research and development costs acquired in business combination	Capital reserve for translation differences and other reserves	Employee benefits	Available for sale financial instruments	Derivative financial instruments and accounting hedge	Deferred income from inter-company sales	Split of embedded securities that were issued including capital instruments & liabilities	Share based capital transactions	Land leased from Israel Lands Administration	Minority interest	Liability to Chief Scientist for Government grants	Timing of recognition of gain from sale of shares	Functional currency	Deferred taxes on land acquired in a business combination		Other	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15			
Current liabilities																		
Credit from banks and others	(33,800)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,800)	
Trade payables	(40,473)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(40,473)	
Other payables	(161,228)	-	-	-	-	(2,958)	-	-	-	-	-	-	-	-	-	-	(164,186)	
Customer advances	(1,779)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,779)	
Long-term liabilities																		
Financial liabilities	(2,335,123)	-	-	-	-	-	-	(17,585)	-	-	-	-	-	-	-	-	(2,352,708)	
Deferred taxes	(34)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34	-	
Liability for employee severance benefits, net	(2,137)	-	-	(868)	-	-	-	-	-	-	-	-	-	-	-	-	(3,005)	
Liabilities allocated to discontinued operations	(737,721)	-	-	-	323	-	-	-	-	-	72,175	-	-	-	(17,001)	-	(682,224)	
Shareholders' equity																		
Share capital	(564,515)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(564,515)	
Premium on shares	(2,254,701)	-	-	-	-	-	-	15,923	-	-	-	-	-	-	-	-	(2,238,778)	
Retained earnings	723,844	(52,246)	(1,728)	(91,191)	28,299	(219)	8,683	(34,981)	1,662	607	14,814	-	98,586	(38,181)	(2,491)	9,605	12,040	653,023
Reserves from translation differences	233,851	-	-	(233,851)	-	-	-	-	-	-	-	-	-	-	-	-	-	(
Hedge funds	-	-	-	-	-	-	(734)	-	-	-	-	-	-	-	-	-	-	(734)
Capital reserves for available-for-sale securities	-	-	-	-	-	4,275	-	-	-	-	-	-	-	-	-	-	-	4,275
Capital reserves for share-based payments	(2,625)	-	-	-	-	-	-	-	-	2,625	-	-	-	-	-	-	-	-
Other capital reserves	(325,042)	-	-	325,042	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total shareholders' equity allocated to the Company's shareholders	(2,189,188)																	(2,146,729)
Minority interest	(2,348)	(7,650)	-	-	(141)	-	-	-	-	-	5,270	72,175	-	-	-	7,396	-	(69,648)

Notes to the Financial Statements for the year ended December 31, 2007

Total liabilities & shareholders' equity	<u>(5,503,831)</u>)	<u>(1,728)</u>	<u>-</u>	<u>27,613</u>	<u>4,056</u>	<u>4,991</u>	<u>(34,981)</u>	<u>-</u>	<u>3,232</u>	<u>20,084</u>	<u>-</u>	<u>98,586</u>	<u>(38,181)</u>	<u>(2,491)</u>	<u>-</u>	<u>12,006</u>	<u>(5,494,552)</u>
		<u>(59,896)</u>																<u>(</u>

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)

Table C – Adjustments following transition to IFRS Standards on the Company's consolidated earnings (losses) for year ended 31.12.2007 (NIS thousands)

Details	According to Israel GAAP	Capital reserve	Revaluation	Revaluation of derivative instruments from hedge accounting	Deferred income from inter-company sales	Revaluation of embedded securities issued including capital instruments and liabilities	Share-based payment transactions	Land leased from Israel Lands Administration	Minority interest	Recording of liability to Chief Scientist for Government grants	Timing of recognition of gain from sale of shares	Functional currency	Deferred taxes on land acquired in a business combination	Other	Total IFRS Standards
		3	4	5	6	7	8	9	10	11	12	13	14	15	
Revenues and earnings															
Revenues from sales and projects carried out	218535	-	-	-	167	-	-	-	-	-	-	-	-	-	218702
Koor Group's equity in results of affiliated companies, net	295159	4448	(12801)	-	(19424)	3257	-	(3505)	(45)	1801	-	(15749)	-	2236	255377
Other income, net	576963	10231	(5386)	734	(219)	-	-	6399	-	8777	(37136)	-	-	915	640278
Finance income	64982	-	-	-	6713	-	-	-	-	-	-	-	-	-	71695
	<u>1,155,639</u>	<u>14,679</u>	<u>(18,187)</u>	<u>734</u>	<u>(12,763)</u>	<u>3,257</u>	<u>-</u>	<u>2,894</u>	<u>(45)</u>	<u>8,978</u>	<u>(37,136)</u>	<u>(15,749)</u>	<u>-</u>	<u>3,151</u>	<u>1,186,052</u>
Expenses and losses															
Cost of sales and projects carried out	192302	-	-	-	-	-	-	-	-	-	-	-	-	-	192302
Selling and marketing expenses	44481	-	-	-	-	-	-	-	-	-	-	-	-	-	44481
General and administrative expenses	53708	-	174	-	-	-	-	-	-	-	-	-	-	-	53882
Finance expenses	257335	-	112	-	-	-	42819	-	-	-	1045	-	-	-	301311
	<u>547,826</u>	<u>-</u>	<u>286</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,045</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>591,976</u>
Earnings before income taxes	<u>607,813</u>	<u>14,679</u>	<u>(18,473)</u>	<u>734</u>	<u>(12,763)</u>	<u>3,257</u>	<u>(42,819)</u>	<u>2,894</u>	<u>(45)</u>	<u>8,978</u>	<u>(38,181)</u>	<u>(15,749)</u>	<u>-</u>	<u>3,151</u>	<u>594,076</u>
Income taxes	109	-	-	-	-	-	-	-	-	-	-	-	-	-	109
	<u>607,922</u>	<u>14,679</u>	<u>(18,473)</u>	<u>734</u>	<u>(12,763)</u>	<u>3,257</u>	<u>(42,819)</u>	<u>2,894</u>	<u>(45)</u>	<u>8,978</u>	<u>(38,181)</u>	<u>(15,749)</u>	<u>-</u>	<u>3,151</u>	<u>594,185</u>
Minority interest in results of subsidiaries, net	2016	-	-	-	-	-	-	-	-	(2016)	-	-	-	-	-
Earnings from continuing operations	609,938	14,679	(18,473)	734	(12,763)	3,257	(42,819)	2,894	(45)	8,978	(38,181)	(15,749)	-	3,151	594,185
Earnings from discontinued operation, ent	<u>10,355</u>	<u>-</u>	<u>(182)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,605</u>	<u>-</u>	<u>26,622</u>
Net earnings for the year	<u>620,293</u>	<u>14,679</u>	<u>(18,655)</u>	<u>734</u>	<u>(12,763)</u>	<u>3,257</u>	<u>(42,819)</u>	<u>2,894</u>	<u>6,799</u>	<u>(2,016)</u>	<u>(38,181)</u>	<u>(15,749)</u>	<u>9,605</u>	<u>3,151</u>	<u>620,807</u>
Allocated to:															
Company's shareholders															62823
Minority interest															(2016)
Net earnings															<u>620,807</u>

Notes to the Financial Statements for the year ended December 31, 2007**Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)****Details on adjustments upon transition to IFRS Standards**Accounting effects expressed within the scope of the adoption of new Accounting Standards in Israel as from January 1, 2007

1. **Investment property** – In accordance with generally accepted accounting principles in Israel ("Israeli GAAP"), until December 31, 2006, investment property was stated at its cost, as part of fixed assets. According to IFRS Standards, investment property is stated separately in the balance sheet, at its fair value – based on the Company's election. Changes in fair value throughout the reporting period are charged to earnings and loss for that period. The effect of this item was expressed within the scope of the adoption of Accounting Standard No. 16 in Israel, as from January 1, 2007.
2. **Reestablishment of costs of research and development projects acquired in a business combination** – In accordance with Israeli GAAP, until December 31, 2006, the Group expensed research and development projects that were acquired within business combinations. In accordance with IFRS, these projects meet the definition of an intangible asset and are amortized over their useful lives. The effect of the transition as at January 1, 2007 is an increase in investments in affiliates against an increase in retained earnings of NIS 2 million. This effect was expressed within the scope of the adoption of Accounting Standard No. 30 in Israel, as from January 1, 2007.
3. **Capital reserves for translation differences and other capital reserves** – As noted in Par. B.2, in accordance with an exemption of IFRS 1, the Company elected to charge the balance of the reserves for translation differences of financial statements of investees as at the transition date, positive and negative, as well as other capital reserves that are not required under IFRS Standards, to the retained earnings balance. Likewise, in accordance with Israeli GAAP, until the end of 1994, the Company was required to capitalize gains to capital reserves if they were capitalized in the books of the investee. In accordance with IFRS, the Company is not required to capitalize in such a case.

The measurement differences between Israeli GAAP and IFRS Standards in the overseas operations also affect the accrual in reserves for translation differences and on their realization when the shareholding percentage in the said operations decrease.

4. **Employee benefits** – In accordance with Israeli GAAP, accrued severance pay is recognized on the basis of the full liability, assuming that all the employees will be dismissed at terms that entitle them to full severance pay, without considering discount rates, rates of future salary increases and future terminations. Likewise, the accrued vacation and sick leave were calculated based on estimates of utilization and redemption, respectively. According to IFRS Standards, all the net liabilities for post-employment benefits and other long-term benefit plans are measured in accordance with the provisions of IAS 19 regarding employee benefits. Post-employment benefits for defined benefit plans are measured, inter alia, based on actuarial estimates and discounted amounts. The liability is measured at discounted value, based on the yields of government bonds, since the Company estimates that there is not a deep market for high-quality corporate bonds in Israel.

To the best of the Company's knowledge, the issue of the discount rate is being examined, and it is possible that it will be decided at the end, that the most appropriate discount rate is based on corporate bonds. In this case, the data in the note could change, the actuarial liability will decrease and the current finance expenses on these liabilities will increase.

Moreover, funded severance pay deposited with a related party is stated in accordance with Israeli GAAP as a deduction from the liability. According to IFRS Standards, these funded provisions do not constitute assets of the plan and are stated as a separate asset.

Notes to the Financial Statements for the year ended December 31, 2007**Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)**

The Company elected to recognize actuarial gains and losses directly in shareholders' equity, in accordance with the alternatives in IAS 19. The Company elected to apply the alternative, whereby actuarial gains or losses will be charged to retained earnings, since according to this alternative, the balance sheet reflects the fair value of net liabilities to employees at the cutoff date, and likewise, according to this alternative, the statement of operations best reflects the Company's operating results, so that fluctuations in actuarial gains and losses is prevented.

5. **Financial instruments available for sale** – In accordance with Israeli GAAP, the Company classified its investments in non-marketable shares and non-marketable options for shares as long-term assets measured at cost, net of declines in value that are not temporary. In accordance with IFRS Standards, the Company classifies these investments as financial assets available for sale and they will be measured at their fair value on every balance sheet date. Changes in fair value will be charged to a capital reserve for financial assets available for sale, except for continuous or significant declines in value that will be charged to gains and losses.
6. **Financial derivatives at their fair value and balance sheet reclassification** – In accordance with Israeli GAAP, the conditions for application of hedge accounting is based mainly on economic criteria. Likewise, financial instruments are not necessarily measured at fair value. In accordance with IFRS Standards, in order for the transaction in financial instruments to be deemed an accounting hedge transaction, several conditions must be met, including conditions on the designation of the instrument, fulfillment of the stringent requirements for such designation and high effectiveness of the hedge at the start and throughout the hedge.

Some of the transactions executed by the Group in financial instruments in order to reduce exposure to currency risks or interest risks do not meet the conditions required for hedge accounting. Therefore, they are recorded under IFRS at fair value, with the changes in fair value charged immediately to gains and losses.

Regarding financial instruments that meet the conditions for hedge accounting, these instruments are stated at their fair value, and a change in fair value is charged to shareholders' equity in a "hedge reserve".

In accordance with Israeli GAAP, it is not required to separate embedded derivatives from hybrid contracts. In accordance with IFRS Standards, in certain cases, embedded derivatives are to be separated from hybrid instruments and presented at their fair value on every balance sheet date, with the changes in their fair value in every reporting period charged to gains and losses during the period.

7. **Deferred income from intercompany sales** – In accordance with Israeli GAAP, intercompany transactions are eliminated in the consolidated financial statements and deferred tax is recorded at the tax rate of the selling company, for temporary differences in the timing of the recognition of income between the financial statements and the tax payment. In accordance with IFRS, deferred tax on intercompany transactions in consolidated returns will be recorded at the tax rate of the buyer company.
8. **Splitting bundled securities that include capital instruments and liabilities** – In accordance with Israeli GAAP, options that were issued to investors with a CPI-linked exercise price are classified as shareholders' equity. Such options that were issued in a bundle of options and debentures were separated from the debentures at a ratio of the fair value of the bundle's elements. According to IFRS, this type of option is classified as a liability and measured at fair value on every balance sheet date, with the changes in fair value charged to gain/loss periodically. Likewise, according to IFRS, the proceeds from the issuance of the bundle containing a liability element that is measured by the interest method (bonds) and the liability element is measured at fair value is allocated first to the liability element, which is measured at fair value, and the balance of the proceeds is allocated to the liability element, which is measured by the interest method.

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)

9. **Share-based payment transactions** - In accordance with Israeli GAAP, the Company recognized share-based payments as from January 1, 2006 for grants given after March 15, 2005, provided that they did not vest by January 1, 2006. According to the exemption provided in IFRS 1, share-based payments granted after November 7, 2002 that did not vest by January 1, 2007 are treated retroactively, in accordance with the provisions of IFRS 2. Moreover, in the absence of a specific provision, under IFRS, the Company elected to include the benefit in retained earnings instead of in a capital reserve.
10. **Land leased from the Israel Lands Administration** – In accordance with Israeli GAAP, land leased from the Israel Lands Administration ("ILA") was classified as fixed assets, and therefore, was treated as land that is not to be depreciated. In accordance with IFRS Standards, when the land is not considered leasehold land, the Group classifies land leased from ILA as operating leases. Therefore, the prepaid lease fees paid to ILA are stated as deferred expenses and are amortized over the lease period (including an option to extend the lease period if on the date of the lease, it was probable that the option would be exercised).
11. **Minority interest** – In accordance with Israeli GAAP, minority interests are classified as a separate line item between long-term liabilities and shareholder's equity. In accordance with IFRS Standards, minority interests in subsidiaries are classified as a separate element in the Company's shareholders' equity.
12. **Liability to Chief Scientist for government grants** – In accordance with Israeli GAAP, grants from the Chief Scientist for research and development projects were recorded upon their receipt as revenues that were stated as a deduction from the related research and development expenses. Expectations for repayment of the grant are not evaluated regularly, and when the grant is repaid, an expense is recorded to the cost of sales within the scope of the payment of royalties to the Chief Scientist.

Under IFRS, such grants are treated as forgivable loans, in accordance with the provisions of IAS 20. Accordingly, Chief Scientist grants received are recognized as a liability, at its fair value on the receipt date of the grants, unless on that date, it is probable that the amount received will not be repaid. The amount of the liability is reevaluated in every period, and the changes in fair value of the grant – if any, are charged to gain and loss.

13. **Timing of the recognition of gain from realization of shares** - In accordance with Israeli GAAP, the sale of financial assets will occur when control in the financial assets is transferred. In accordance with IFRS, the decision on writing-off the financial assets is based on the transfer of the risks and benefits of ownership of the assets. Consequently, in accordance with IFRS, since all of the risks and benefits were transferred to the buyer, the Company wrote-off its entire investment in shares of Elbit, totaling NIS 201 million, and recorded an increase in retained earnings as at December, 31, 2006 of NIS 38 million and an increase in receivables on the sale of shares of NIS 239 million. According to Israeli GAAP, control in the shares had not yet passed to the buyer in 2006, and therefore, the Company will only deduct its investment in these shares and recognize the gain on their sale only in 2007.
14. **Functional currency** – Israeli GAAP allowed companies to designate a functional currency other than the shekel in cases in which most of the revenues received and most of the assets are purchased in that currency, although did not require companies to report based on a foreign currency that differs from the shekel. Under IFRS, the Company must examine the functional currency and measure the operating results based on the designated functional currency.

Notes to the Financial Statements for the year ended December 31, 2007

Note 29 – Disclosure on adoption of International Financial Reporting Standards (IFRS)

15. **Deferred taxes on land acquired in a business combination** – According to Israeli GAAP, a deferred tax liability was not recognized for temporary differences relating to land that was acquired in a business combination prior to January 1, 2005. Under IFRS, a deferred tax liability is to be created for temporary differences for land acquired in business combinations.
16. **CPI-linked financial instruments** – The Company has financial instruments with CPI-linked financial balances. In the opinion of the Company's management, based on a position paper published by the Standards Board, there are several possible alternatives for the accounting treatment of CPI-linked financial instruments. In this light, for the purpose of preparation, the Company adopted accounting treatment whereby the book value of the instrument and the resultant payments are revalued in every period based on the actual increase in the CPI. Therefore there is no need for an adjustment of the value of the financial instruments under Israeli GAAP and under IFRS Standards. The issue of measurement of CPI-linked financial instruments under IFRS is being evaluated, and within this framework, the Technical Committee of the Israel Accounting Standards Board approached the International Financial Reporting Interpretations Committee (IFRIC) to obtain their position on the accounting treatment of CPI-linked assets and liabilities under International Standards.

In view of the aforesaid, it could be determined that the said accounting treatment is not possible under the provisions of the International Standards, and that another accounting treatment, whereby the inflationary expectations in the country of the financial instrument are to be taken into account, is more proper, in accordance with the provisions AG7 and AG* of International Accounting Standard No. 39. If it is so determined, the Company will be required to evaluate the significance of the said decision, including transitional provisions, if prescribed, on its financial statements and accompanying notes, as were and will be published until the decision is reached, according to International Standards.

Other accounting alternatives elected by the Company under IFRS

1. **Fixed assets** – Under IFRS, one can elect to measure fixed asset items by the cost method or the revaluation method as accounting policy. Following the Company's election of the cost method as accounting policy with respect to the measurement of fixed assets under Israeli GAAP within the scope of application of Standard No. 27, the Company elected the method under IFRS.
2. **Proportionate consolidation of companies in which there is joint control** – According to Israeli GAAP, corporations which have a company in which there is joint control are presented by the proportionate consolidation method. Under IFRS one may elect to present investments in such corporations by the proportionate consolidation method or the equity method. The Company elected to present its investments in jointly controlled corporations by the equity method, since the proportionate consolidation method is expected to be cancelled in the future.
3. **Non-consolidation in the event of effective control** – On the transition date to IFRS, the Company elected to present investee companies in which it has effective control by the equity method, since the consolidation of financial statements under circumstances of effective control that is not legal control does not contribute to the relevancy of the financial statements of the holding company. Likewise, the Company elected this alternative in order to maintain consistency in the presentation it used under Israeli GAAP.

Annex 1 – Subsidiaries (in continuing operations) at December 31, 2007

Name of subsidiary	Percentage held in share capital	
	Voting rights	Equity rights
	%	%
Telrad Holdings Ltd.	100	100
Koor Corporate Venture Capital	100	100
Koor Holdings Ltd. (in voluntary liquidation)	100	100
Koor Investments Ltd.	100	100
Koor Properties Ltd.	100	100
Koor Shevel Ltd.	55	55
MAGAM Chemical Holdings Ltd.	100	100
Solkoor Marketing and Purchasing Ltd.	100	100
Dekolink Wireless Ltd.	70	70
Microwave Networks Inc.	97.5	97.5
Korin Insurance Limited	100	100
Tadiran Limited	100	100
Koor Tadiran Gemel Ltd.	100	100

Annex 2 – Affiliated companies as at December 31, 2007 – Consolidated

	Percentage of share capital		Investment in equity	Excess cost, net	Long-term loans	Total
	Voting rights	Equity rights				
	%					
Makhteshim-Agan Industries Ltd. *	39.0	36.6	1,990,587	390,075	-	2,380,662
Ectel Ltd. *	21.0	21.0	23,567	9,445	-	33,012
A.K.A. Development Ltd.	33.3	33.3	38,038	-	29,600	67,638
Telrad Networks Ltd.	61	61	(27,771)	-	54,088	26,317
Epsilon Investment House Ltd.	50	50	30,412	72,704	-	103,116
Mashal Alluminia Industries Ltd.	-	-	(370)	-	-	(370)
			2,054,463	472,224	83,688	2,610,375

* Publicly traded company.

Annex 3 – Investee companies as at December 31, 2007 – Company

	Opening balance	Percentage share capital		Par value of shares	Investment	Payments on account of shares	Long- term Capital notes and loans	Non- current accounts	December 31
		Voting rights	Equity rights		including excess cost				
	NIS thousands	%	%	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Subsidiaries									
Dekolink Wireless Ltd.	(32,600)	70	70	1,018	(32,600)	-	41,486	-	8,886
Telrad Holdings Ltd.	31,565	100	100	17,895	30,815	750	-	-	31,565
Koor Corporate Venture Capital Ltd. (partnership)	88,424	100	100	-	88,424	-	-	-	88,424
Koor Holdings Ltd. (in voluntary liquidation)	(121)	100	100	15	(121)	-	-	121	-
Koor Investments Ltd.	(55)	100	100	1	(46,230)	46,175	-	-	(55)
Koor Properties Ltd.	55,018	100	100	597	43,113	11,905	-	-	55,018
Koor Shevel Ltd.	(2,475)	55	55	6	(2,475)	-	9,375	-	6,900
Makhteshim-Agan Industries Ltd.	1,730,532	100	100	34	1,730,532	-	-	-	1,730,532
ECtel Ltd.	718,646	8.1	7.6	36,048	718,646	-	-	-	718,646
Solkoor Marketing and Purchasing Ltd.	33,013	21.0	21.0	140	33,013	-	-	-	33,013
Korin Insurance Limited	(17,682)	100	100	71	(17,682)	-	15,300	1,867	(515)
Tadiran Limited (in voluntary liquidation)	2,996	100	100	563	2,996	-	-	-	2,996
Microwave Networks Inc.	(52,783)	100	100	98,138	(52,783)	-	-	-	(52,783)
Epsilon Investment House Ltd.	(41,003)	97.5	97.5	384	(41,003)	-	17,142	-	(23,861)
Makhteshim-Agan Industries Ltd.	103,115	50	50	2,300	103,115	-	-	-	103,115
Daglas	(173)	-	-	-	(173)	-	-	173	-
Mashal Aluminum Industries Ltd.	(370)	-	-	-	(370)	-	-	-	(370)
	<u>2,616,048</u>				<u>2,557,217</u>	<u>58,830</u>	<u>83,303</u>	<u>2,161</u>	<u>2,701,512</u>

