

**Koor Industries Ltd.
Directors' Report**

For the Year Ended December 31, 2007

We are pleased to submit the audited financial statements of Koor Industries Ltd. for the year ended December 31, 2007.

Koor Industries Ltd. (the "Company") is a member of the IDB Group and is one of the most prominent holding companies in Israel, investing in companies operating in a range of business segments. The Company, together with its wholly owned subsidiaries ("Koor") focuses on large-scale international investments. Koor has large cash balances as well as financing and leverage capacity, allowing it to expand its investment portfolio. Koor is examining financial and real investments abroad, inter alia, in view of the market situation and the opportunities that are opening up in the markets.

1 Results of operations

The Company's net earnings for 2007 amounted to NIS 620.3 million, with basic earnings per share of NIS 36.9, compared with a loss of NIS 40.6 million and a basic loss per share of NIS 2.0 for 2006, and earnings of NIS 307.6 million and basic earnings per share of NIS 19.4 million in 2005.

Breakdown of Koor's financial results:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>NIS Millions</u>		
Koor's equity in the operating results of investee companies, net	222	44	192
Gain from sale of investments, net of impairment	601	49	289
Administrative, financing and other expenses, net	(203)	(134)	(173)
Net earnings (loss)	620	(41)	308
Basic earnings (losses) per share (in NIS)	36.9	(2.0)	19.4

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

	<u>Koor's equity in earnings (losses) for the year</u>			<u>Change</u>
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007 compared with 2006</u>
	<u>NIS Millions</u>			
Makhteshim Agan Industries Ltd.	293	120	303	144%
ECI Telecom Ltd.	58	16	53	263%
Telrad Networks Ltd.	13	(100)	(90)	n/a
ECTel Ltd. *	(8)	(3)	-	n/a
Koor Corporate Venture Capital	12	40	(41)	(70%)
Other companies ***	(73)	(15)	(86)	n/a
Excess cost and other adjustments	(73)	(14)**	53	n/a
Total	222	44	192	405%

* ECTel Ltd. (ECTel) has been treated as an affiliated company since Q3 2006.

** Including profit of NIS 62 million for cumulative impact of the change in accounting principles (cancellation of allocation to loss for securities converted into shares in investees, pursuant to first-time implementation of Standard 22).

*** In 2005, including the results of Elisra Electronics Systems Ltd., which was sold in this year. In 2006, including the results of Koor Trade Ltd., which was sold in this year.

1.2 Gain from sale of investments, net of impairment

	2007	2006	2005
	NIS Millions		
Gain from sale of investments, net of impairment	601	49	289

In 2007, this item included in particular capital gain of NIS 514 million from the sale of our holdings in ECI Telecom LTD. ("ECI"), capital gain of NIS 37 million from the sale of our holdings in Elbit Systems Ltd., capital gain of NIS 23 million from the sale of our holdings in Scopus Video Networks Ltd. ("Scopus"), capital gain of NIS 15 million from the sale of our holdings in Knafaim Holdings Ltd. and capital gain of NIS 14 million from the sale of our holdings in Sheraton Moriah (Israel) Ltd.

In 2006, this item included in particular capital gain of NIS 36 million from the sale of part of our holdings in Elbit Systems Ltd., capital gain of NIS 8 million from the sale of our holdings in Isram Wholesale Tours and Travel Ltd., and capital gain of NIS 4 million from the sale of our holdings in Koor Trade Ltd.

In 2005, this item included in particular capital gain of NIS 132 million from the sale of part of our holdings in Makhteshim Agan Industries Ltd. ("Makhteshim Agan"), capital gain of NIS 148 million from the sale of our holdings in Elisra Electronic Systems Ltd., capital gain of NIS 72 million from the sale of our holdings in Tadiran Communications Ltd. and capital gain of NIS 31 million from the IPO of Scopus. These capital gains were offset by provisions for impairment of NIS 69 million for venture capital investments and provision for impairment of NIS 20 million in our holdings in Koor Trade Ltd.

1.3 Administrative, financing and other expenses, net

	2007	2006	2005
	NIS Millions		
Administrative, taxes and other expenses, net	(26)	(46)	(28)
Financing expenses, net	(177)	(88)	(145)
Total administrative, financing and other expenses, net	(203)	(134)	(173)

The main change in 2007 compared with 2006 was due to a reduction in administrative, taxes and other expenses, net, mainly on account of a reduction in the number of employees and office-holders, which was partially offset by an increase in the scope of contributions, and an increase in net financing expenses, due to relatively high rates of inflation during the period, which led to an increase in index-linked liabilities, and a sharp decrease in the shekel-dollar exchange rate, primarily in the second half of 2007, which led to the erosion of dollar-linked financial assets. The increase in financing expenses was in part moderated by a reduction in average net debt.

The main change in 2006 compared with 2005 was due to an increase in administrative, taxes and other expenses, net, on account of provisions for retirement of employees and office-holders and a decrease in financing expenses, net, on account of low inflation rates.

2 Segments of operation

2.1 Investments in investee companies and others by segment

The company's assets, based on the balance sheets as of December 31, 2007 and 2006, include the following business segments:

Segment	Investments by segment			
	NIS millions		% of total	
	2007	2006	2007	2006
Agrochemicals	2,381	2,348	44%	42%
Telecommunications equipment	192	927	3%	17%
Venture capital investments	91	207	2%	4%
Other holdings	217	145	8%	3%
Joint assets	2,533	1,062	43%	19%
Assets attributed to terminated operations	-	815	-	15%
Total	5,414	5,504	100%	100%

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

Segment	2007	2006	2005
	NIS Millions		
Agrochemicals	223	66	558
Telecommunications equipment	531	(122)	(34)
Venture capital investments	12	40	(41)
Defense electronics	-	-	56
Other holdings	57	12	(5)
Total	823	(4)	534

2.2.1 Agrochemicals

	2007	2006	2005
	NIS Millions		
Contribution of business segment	223	66	558

The main change in the results of the segment in 2007 compared with 2006 was due to the improvement in Makhteshim Agan's financial results and the increase in Koor's holding percentage in Makhteshim Agan in 2006, which was reflected fully in 2007.

The main change in the results of the segment in 2006 compared with 2005 was due to capital gains from Koor's sale of part of Makhteshim Agan's shares in 2005 and a deterioration in the results of Makhteshim Agan in 2006 as presented below.

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

Makhteshim Agan (held 39%), reported the following financial results:

	2007	2006	Increase (decrease)	2005	Increase (decrease)
	Million USD		%	Million USD	%
Revenues	2,081	1,779	17%	1,741	2%
Gross profit	697	607	15%	681	(11%)
Operating income	288	204	41%	330	(38%)
Financing expenses, net	49	44	11%	35	26%
Net profit	178	84	112%	207	(59%)

The results of Makhteshim Agan in 2007 compared with 2006 were affected by the following trends in the crop protection products market and in the company: (a) an increase in the standard of living in the world and a global demand for biofuels produced from sugarcane and corn crops, which resulted in an increase in prices of agricultural produce, and in turn, an increase in demand for Makhteshim Agan products; (b) relatively favorable weather conditions in most geographic areas in which Makhteshim Agan operates, which created a greater demand than expected for crop protection products and contributed to a recovery of the market, which had been impacted by harsh weather conditions in 2006; (c) a material increase in fuel prices in 2007, which resulted in an increase in raw material prices (which are distant derivatives of fuel), and an increase in energy prices which eroded the gross profit. (d) Makhteshim Agan reports its results in dollars, and thus the strengthening of various currencies (mainly the euro) against the dollar impacted positively on the increase in revenues, notwithstanding the strengthening of the shekel, which increased local expenses in Israel.

The results of Makhteshim Agan in 2006 compared with 2005 show a small increase in revenues. In contrast, difficult market conditions in Brazil and a harsh winter in Europe led to an erosion of prices, which alongside the increase in raw material prices, led to a decrease in gross profit. The erosion in gross profit and the increase in marketing, administrative and general expenses also led to an erosion in operating profit. The gross and operating profit in 2006 include one-time adjustments and provisions of USD 19 million. The net profit in 2006 includes one-time adjustments and provisions of USD 48 million, which were recorded as other expenses. Against these deductions, in 2006 Makhteshim Agan recorded a tax benefit of USD 13 million.

2.2.2 Telecommunications equipment

	2007	2006	2005
	NIS Millions		
Contribution of business segment	531	(122)	(34)

The main changes in the results of this business segment in 2007 compared with 2006 were due to the income recorded in Q3 from the current activities of ECI and the sale of our holdings therein, which came to NIS 495 million. There was additional positive impact from the improvement in the financial results of Telrad.

The main change in the results of the segment in 2006 compared to 2005 is due to a deterioration in ECI's financial results, which recorded a small increase in its revenues and gross profit in 2006, alongside a decrease in operating profit and net profit, as a result of recording one-time items of expenses for options, amortization of goodwill, inventory write-offs and severance pay amounting to USD 21 million.

In 2006 there was also deterioration in the results of Microwave Networks Inc. and the results of Telrad.

2.2.3 Venture capital investments

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>NIS Millions</u>		
Contribution of business segment	12	40	(41)

The main change in the segment's financial results in 2007 compared with 2006 and the change in the results of the segment in 2006 compared with 2005 are due to the operating results of Koor Corporate Venture Capital, which constitutes the segment in the reporting period.

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

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

	<u>2007</u>	<u>2006</u>	<u>Increase (decrease)</u>	<u>2005</u>	<u>Increase (decrease)</u>
	<u>NIS Millions</u>		<u>%</u>	<u>NIS Millions</u>	<u>%</u>
Revenues	12	57	(79%)	32	78%
Operating income	11	44	(75%)	(41)	n/a
Net profit	11	39	(72%)	(41)	n/a

The increase in revenues in Koor Corporate Venture Capital in 2007 is mainly due to the capital gain attributable to the partnership from the sale of its complete holdings in Scopus.

The increase in the contribution of Koor Corporate Venture Capital in 2006 compared with 2005 is due to capital gain to the partnership from the sale of its holdings in Followap Inc., and from cancellation of the provision for impairment of the value of capital venture investments made in prior periods.

2.2.4 Defense electronics

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>NIS Millions</u>		
Contribution of business segment	-	-	56

The contribution of the segment in 2005 was due to the operations of Tadiran Communications Ltd. and its sale during this year.

2.2.5 Other holdings

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>NIS Millions</u>		
Contribution of business segment	57	12	(5)

The main change in the financial results of this business segment in 2007 compared with 2006 is due to the capital gain from the sale of our holdings in Elbit Systems Ltd. ("Elbit"), and from our share in the results of Epilson Investment house Ltd. ("Epilson") in 2007, while in 2006 the financial results of Epilson were included only from Q2, the date of acquisition.

The main change in the financial results of the segment in 2006 compared with 2005 is due to the inclusion of the financial results of Epsilon (which was acquired in Q2 2006) and earnings

recorded following a tax assessment adjustment from previous years of a consolidated company.

3 Analysis of results, by quarter

In Q4 2007, Koor recorded a loss of NIS 117 million and a loss per share of NIS 7.4, compared with a loss of NIS 55 million and a loss per share of NIS 2.8 in Q4 2006 and earnings of NIS 112 million and earnings per share of NIS 7.3 in Q4 2005.

3.1 The results of the company's operations and those of the consolidated companies by quarter in 2007, 2006 and 2005 are presented in the main sections of the consolidated statement of income below (NIS millions):

	Total	2 0 0 7			
	2007	Q4	Q3	Q2	Q1
	N I S M i l l i o n s				
Koor's equity in the operating results of investee companies, net	222	(22)	13	129	102
Gain from sale of investments, net of impairment	601	2	539	27	33
Administrative, financing and other expenses, net	(203)	(97)	(90)	(4)	(12)
Net profit (loss) for the period	620	(117)	462	152	123
	Total	2 0 0 6			
	2006	Q4	Q3	Q2	Q1
	N I S M i l l i o n s				
Koor's equity in the operating results of investee companies, net	44	(78)	32	(30)	120
Gain from sale of investments, net of impairment	49	44	-	5	-
Administrative, financing and other expenses, net	(134)	(21)	(25)	(70)	(18)
Net profit (loss) for the period	(41)	(55)	7	(95)	102
	Total	2 0 0 5			
	2005	Q4	Q3	Q2	Q1
	N I S M i l l i o n s				
Koor's equity in the operating results of investee companies, net	192	(27)	53	139	27
Gain from sale of investments, net of impairment	289	190	-	(9)	108
Administrative, financing and other expenses, net	(173)	(51)	(31)	(65)	(26)
Net profit (loss) for the period	308	112	22	65	109

3.2 Analysis of Koor's financial results by segment and main items in Q4:

	<u>Q4</u>	
	<u>2007</u>	<u>2006</u>
<u>Segment of operations</u>	<u>NIS Millions</u>	
Agrochemicals	15	(98)
Telecommunications equipment	(29)	(42)
Venture capital investments	(5)	52
Other holdings	3	10
Total segments	(16)	(78)
Joint general income (expenses)	(8)	18
Financing expenses, net	(93)	(12)
Earnings (losses) before income tax	(117)	(72)

A comparison of segment results for Q4 2007 and Q4 2006 shows the following:

In Q4 2007 Koor recorded earnings in the agrochemical segment compared to a loss in Q4 2006 due to an improvement in the business results of Makhteshim Agan in 2007 and one-time provisions and adjustments recorded in Makhteshim Agan in Q4 2006.

In the telecommunication equipment segment, Koor recorded a decrease in losses in Q4 2007 compared to Q4 2006, due to an improvement in the financial results of Telrad, which were offset by a deterioration in the business results of Dekolink Wireless Ltd.

In the venture capital investments segment, in Q4 2007 Koor recorded a loss due to provision for impairment of venture capital investments. This is compared with the earnings recorded in Q4 2006, due to capital gain attributable to Koor Corporate Venture Capital from the sale of its holdings in Followap Inc. and from the cancellation of the provision for impairment of venture capital investments made in previous periods.

In the other holdings segment, in Q4 2007, Koor recorded a decrease in earnings compared to Q4 2006, when a one-time profit was recorded as a result of a tax assessment adjustment from previous years for a consolidated company.

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

- 4.1** In November 2006, an agreement was signed for the sale of most (5.5%) of Koor's holdings in Elbit Systems Ltd. to Federmann Enterprises Ltd. for USD 70 million. In November 2006 and March 2007 the first and second stages of the transaction were carried out and Koor transferred two fifths of its sold holdings in Elbit (1.1% in each stage) and received two fifths of the consideration (USD 14 million in each stage). In September 2007, the final stage of the transaction was carried out, and the balance of the consideration still to be paid was transferred to Koor (about USD 44 million, including interest), and the balance of holdings in Elbit Systems (3.3%), that were being held in escrow, were transferred to the purchasers. For further information, refer to Note 3 (D) to the financial statements.
- 4.2** In January 2007, Koor Corporate Venture Capital and Koor completed a transaction for the sale of their complete holdings in Scopus (23%) to Optibase Ltd. for USD 16 million. As a result of the sale, in 2007 Koor recorded a capital gain of NIS 23 million.

- 4.3** In April 2007, Veraz Networks (“Veraz”), an investee company of ECI, completed an IPO of its stock in the USA and raised USD 54 million (before underwriting commissions and expenses) from the sale of 6.75 million ordinary shares at USD 8 per share. As part of the IPO, ECI also sold part of its shares in Veraz for USD 18 million (before underwriting commission). As a result of the IPO, ECI's holdings in Veraz decreased from 40.1% to 27.5%. As a result of the IPO, in 2007, ECI recorded, in accordance with US GAAP, earnings of USD 40 million. Due to the abovementioned earnings of ECI, in 2007 Koor recorded earnings of NIS 46 million. For further information, see Note 3 (B) to the financial statements.
- 4.4** In April 2007, Koor completed the sale of its holdings (56.5%) in Sheraton Moriah (Israel) Ltd. to Azorim Tourism Ltd., controlled by Azorim Development and Construction Co. Ltd. and Boymelgreen Capital Ltd. for USD 24 million, of which USD 14.7 million has been received and USD 9.1 million is expected to be received no later than March 27, 2008. On completion of the transaction, Koor was released from its bank guarantees of USD 9.2 million. As a result of the transaction, Koor recorded a capital gain of NIS 14 million. For further information, refer to Note 3 (E) to the financial statements.
- 4.5** In June 2007, Koor completed the sale of its holdings (9.16%) in Knafaim Holdings (Israel) Ltd. for USD 13.7 million. As a result of the transaction, Koor recorded a capital gain of NIS 15 million. For further information, refer to Note 3 (E) to the financial statements.
- 4.6** In July 2007, Koor acquired Makhteshim Agan shares worth NIS 24 million. After the balance sheet date, Koor purchased additional Makhteshim Agan shares for NIS 126 million. For further information, refer to Note 3 (A) to the financial statements.
- 4.7** In September 2007 ECI, an affiliate of Koor on that date (28%), completed a merger transaction whereby ECI was completely sold to the Swarth Group, controlled by Mr. Shaul Shani, and to various funds, for which Ashmore Investment Management was appointed as investments manager in a transaction worth about USD 1.2 billion. The consideration received for Koor’s shares in ECI came to about USD 330 million. Upon completion of the transaction Koor recorded a capital gain of about NIS 514 million in Q3 2007. For further information, refer to Note 3 (B) to the financial statements.
- 4.8** During the year, Koor invested USD 6.75 million in Indivision private equity fund, which invests in the retail sector in India. Koor’s total commitment to invest in the fund is USD 15 million. As of the Report Date, Koor’s total investments in the fund amounted to USD 8.25 million. The balance of Koor’s commitment to invest in the fund on the report date is USD 6.75 million.

5 Dividend

- 5.1** In August 2007, Koor’s board of directors decided to distribute an interim dividend of a total amount of NIS 150 million, representing approximately NIS 9.02 per share. The dividend was paid in September 2007.
- 5.2** In November 2007, Koor’s board of directors decided to distribute an interim dividend of a total amount of NIS 380 million, representing NIS 22.86 per share. The dividend was paid in December 2007.

6 The financial situation and sources of finance

	December 31, 2007	December 31, 2006
	NIS Millions	
Total assets in the consolidated balance sheet	5,414	5,504
Investments in associated companies in the consolidated balance sheet	2,610	3,322
Shareholders' equity	2,130	2,189
Surplus of current assets over liabilities in the consolidated balance sheet	1,984	860
Surplus of financial liabilities over Koor's financial assets	650*	1,670

* This balance does not include future receipts of NIS 40 million expected to be received during 2008 for transactions completed in 2007.

- 6.1** In 2007, Koor received dividends from investee companies in the amount of NIS 14 million, mainly for dividends distributed by Epsilon. In 2006, Koor received dividends from investee companies in the amount of NIS 95 million, mainly for dividends distributed by Makhteshim Agan. Koor also received ECTel shares as a dividend, worth NIS 16 million on the distribution day.
- 6.2** In 2007, the net consideration from sales of investments amounted to NIS 1,791 million. In 2006 the net consideration from sales of investments amounted to NIS 251 million.
- 6.3** In 2007, Koor extended loans to and invested in investee companies in the amount of NIS 86 million. In 2006, Koor extended loans to and invested in investee companies in the amount of NIS 963 million.
- 6.4** In May 2007, the Company raised NIS 642 million from institutional investors in return for issuance of debentures (Series H) by expanding the series listed on the Tel-Aviv Stock Exchange ("TASE"). The debentures were rated A+/Stable by Maalot. The debentures were offered at a premium reflecting annual effective interest of 4.05% linked to the Israeli CPI.

7 Delisting of the Company's ADRs from the NYSE

In June 2007, the Company delisted its ADRs from the NYSE and announced the termination of the ADR program and its intention to deregister when conditions permitted.

This decision was made after careful examination of a number of factors, the main ones being:

- [a] the limited number of US holders;
- [b] the low trading volume of Koor's ADR units on the NYSE compared to the relatively high level of trade of its ordinary shares on the TASE;
- [c] the ongoing costs of the ADR program;
- [d] the costs associated with Koor being a reporting company under US securities laws;
- [e] Koor's ordinary shares will continue to be traded on the TASE;
- [f] Koor will continue to be obliged to file reports with the Israel Securities Authority and the TASE in accordance with Israeli securities laws.

On February 11, 2008 Koor filed a Form 15-F report to the US Securities and Exchange Commission (SEC) for deregistration of its shares and immediate suspension of its duties to report pursuant to the Securities Exchange Act of 1934. Koor expects that this deregistration will come into effect within 90 days from filing of this report. For further information, see Note 20 [A] to the financial statements.

8 Main events subsequent to the balance sheet date

- 8.1** In January 2008, Koor acquired additional Makhteshim Agan shares in the amount of NIS 126 million. For further information on this subject, see Note 3 (A) to the financial statements.
- 8.2** Subsequent to the balance sheet date, Makhteshim Agan's board of directors decided to distribute a dividend of USD 120 million. Koor's share in this dividend is expected to amount to USD 46 million.
- 8.3** Subsequent to the balance sheet date, Makhteshim Agan's board of directors decided on a share buyback of up to USD 100 million.

For additional information, see Note 28 to the financial statements.

9 Disclosure concerning the auditor's salary

		2 0 0 7				2 0 0 6			
		Fee (NIS thousands)		Work hours		Fee (NIS thousands)		Work hours	
Name of auditor		Audit and tax services	Other services	Audit and tax services	Other services	Audit and tax services	Other services	Audit and tax services	Other services
The company and the company's wholly-owned subsidiaries	KPMG Somekh Chaikin	1,253	253	5,049	934	2,318	1,205	7,141	5,213
	Yosef Shimoni	178	134	657	525	236	171	645	570
Other material consolidated subsidiaries									
Sheraton Moriah (Israel) Ltd. and subsidiaries*	KPMG Somekh Chaikin	-	-	-	-	430	-	2,673	-
	Deloitte Brightman Almagor	-	-	-	-	325	-	2,171	-

* The Company's holdings in Sheraton Moriah (Israel) Ltd. were sold in April 2007.

The significant decrease in the total fees paid to Somekh Chaikin in 2007 compared with 2006 is mainly due to a decrease in the scope of hours related to US reporting requirements, as a result of the delisting of Koor's shares on the NYSE.

10 Contribution to the community

The Company views contributing to and supporting the community in Israel as worthy of integration into its activities. In 2007, the Company approved donations of NIS 11 million to various projects and associations, mainly in education, health and public welfare

After the Second Lebanon war, with the aim of significantly increasing support for residents of Israel's northern and southern border communities, IDB Group continues to extend substantial financial support for these residents and Koor has joined this effort.

The aforementioned support includes approved donations of NIS 8.8 million for residents of Israel's northern and southern border communities.

Main projects approved for donation

- Scholarships: A total of 1,600 scholarships have been approved, amounting to NIS 3.7 million, distributed as follows: 750 scholarships for students which are residents of Nahariya; 450 scholarships for students at the Emek Yizrael College in Nazareth Ilit; 450 scholarships for students which are residents of the Upper Galilee Regional Council; 90 scholarships for students which are residents of Shlomi; and 70 scholarships for students which are residents of the Metula Regional Council. The scholarships are transferred directly to the relevant academic institute and the recipients of the scholarships are required to volunteer in the community.
- Other projects amounting to NIS 2.6 million: Financing of preparation courses for psychometric tests for students in Horfeish and assistance in setting up a municipal emergency center in the town; financing the purchase of computers for Avital School on Kibbutz Merom Hagolan; renovation of electricity, electronics and computer laboratories at Nazareth College in Nazareth Ilit; renovation of the Shaar HaNegev Regional Council community club on Kibbutz Nir Am; and renovation and operation of a club for youth at risk in Nazareth Ilit.

Below are details of donations made in the reporting period, when the controlling shareholder in the Company had a connection with the recipient of the donation.

Recipient of the donation	Amount of donation	Controlling shareholder	Nature of the connection (according to the declaration of the controlling shareholder)
Sourasky Medical Center, Tel Aviv	NIS 969,000	Nochi Dankner	Member of the management committee of the center's Association of Friends
Interdisciplinary Center, Herzliya	USD 20,000	Orly Dankner	Member of the management committee of the center's Association of Friends

Donations to organizations in which the Company's controlling shareholders or their relatives, as well as the Company's directors or officers, serve on the management committee (or a similar organ, unlike members on the board of trustees or members in an association or organization) are brought to the Company's board of directors for approval, after the relevant controlling shareholders, directors or officers confirm that they do not have a personal interest in the donation, apart from the connection to the organization receiving the donation by virtue of their office.

11 Internal Auditing in the Company

11.1 Internal auditor and compliance with terms

11.1.1 The name of the internal auditor in the corporation: Mr. Ezra Yehuda, CPA.

11.1.2 Start of service: 22.7.1998

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

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

11.1.5 To the best of the Company's knowledge, the internal auditor does not hold any securities of the Company or of entities affiliated with it. The internal auditor has no material business relations or other material connections with the Company or with

any entity affiliated with it, other than his being employed by the Company as part of the Company's assessments of its compliance with the requirements of the US Sarbanes-Oxley Act, and as the internal auditor of several of the Company's subsidiaries.

- 11.1.6** Employment status: Mr. Yehuda provides services through his firm.
- 11.2** Appointment of the internal auditor: The appointment of the internal auditor was approved by the audit committee at its meeting on July 1, 1998 and by the board of directors at its meeting on July 22, 1998, after considering the auditor's education, qualifications and experience in internal auditing, and the type, scope and complexity of the Company's operations.
- 11.3** Organizational superior of the internal auditor: Chairman of the Board of Directors.
- 11.4** The work plan of the internal auditor: The work plan is in an annual format. The considerations in determining the work plan are the nature of the Company's operations and the fact that it is a holding company, the need for monitoring for maintaining a proper auditing process in the Company's subsidiaries and investee companies, the probability of the existence of faults and exposures in the Company's operations, and the desire to audit material matters in the Company's operations at least once every four years. The entities involved in determining the work plan are the internal auditor, Company's management and the audit committee, which approves the plan. The internal auditor has discretion to deviate from the work plan, subject to a report to the audit committee and receipt of its approval of the proposed changes.
- 11.5** Auditing abroad or of investees: The auditor is the internal auditor of the Company and several of its subsidiaries. Other investee companies have their own internal auditor. The annual internal audit plan includes reference to the actual performance of internal audits in the Company's material investee companies.
- 11.6** Scope of employment: About 250 work hours per year in accordance with the work plan, of which 250 hours were utilized in 2006 and 212 hours in 2007. In the opinion of the audit committee, the internal auditing work plan and the scope of employment set for realizing this plan are appropriate for the Company's needs. If necessary, the Company has the option to expand said scope of employment.
- 11.7** Conducting the audit: The audit is conducted in accordance with generally accepted professional standards and the Internal Audit Law.
- 11.8** Accessibility to information: The internal auditor and his employees are given access to information as stipulated in Section 9 of the Internal Audit Law, and this includes continuous and direct access to the information systems of the Company and its wholly-owned subsidiaries.
- 11.9** The internal auditor's reports: The internal auditor's reports are submitted in writing. During 2006, five reports were submitted on five topics, and in 2007, four reports were submitted on four topics. The internal audit reports are distributed to the chairman of the board of directors, the chairman and members of the audit committee and the Company's management as they are completed. The reports were distributed prior to audit committee meetings which discussed them at its meetings held on February 26, 2006, March 21, 2006, May 23, 2006, December 25, 2006, May 13, 2007, August 15, 2007 and November 11, 2007.
- 11.10** Board of directors' assessment: In the opinion of the board of directors, the scope, nature and continuity of the internal auditor's activities and his work plan are reasonable in the circumstances, and they fulfill the Company's internal audit goals.
- 11.11** Remuneration: The remuneration paid to the internal auditor is based on actual work hours. In 2006, the internal auditor was paid for his work during the year a total of NIS 83 thousand and for his work in 2007, he was paid up to now a total of NIS 62 thousand.

12 The Board of Directors

12.1 In January 2007, the board of directors of the Company resolved to appoint Mr. Avraham Asheri as a Company director. The appointment was approved at the Company's general meeting, which was held on June 11, 2007. In August 2007, the Company's board of directors resolved to appoint Mr. Haim Gavrieli as a Company director. This appointment will be brought to the Company's next annual general meeting.

12.2 Change of Chairman of the board

In August 2007, the chairman of the board, Mr. Jonathan Kolber, announced his resignation from the Company's board of directors. The general meeting resolved to appoint Mr. Ami Erel to the position of chairman of the board in his stead.

13 Report on market risks exposure and management

The report in Section 13.1 hereunder refers to Koor. Section 13.2 hereunder refers to market risks to which Koor's primary investee is exposed, and which are liable to have significant impact on Koor. The data in Section 13.3 refers to the consolidated balance sheet of the Company and its subsidiaries.

13.1 Koor

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

Market risks – Koor is exposed directly to market risks as a result of changes in currency exchange rates and in inflation rates in Israel, as well as market variables that impact the markets in which its holdings are traded, and as a result, the value of these holdings. Furthermore, Koor is indirectly exposed to various market risks that affect the performance of its investees.

The major part of Koor's debt is a shekel denominated, Israeli CPI linked, fixed interest debt whose fair value is affected by changes in market interest rates. Against this, the majority of Koor's liquid assets is dollar linked and bear variable dollar interest rates. The fair value of the liquid assets is impacted by changes in the shekel to dollar exchange rate.

Description of market risks and Koor's policy for managing such exposure

Direct exposure to rise in the Israeli Consumer Price Index

As of the date of the report, the scope of Koor's Israeli CPI-linked shekel liabilities is NIS 3 billion for an average duration of 3.7 years.

Koor partially hedges this exposure by purchasing forward contracts for the Israeli CPI. In the majority of the cases, the contracts are purchased for one or two years, and as of the date of the report, the overall scope of such contracts held is NIS 0.5 billion and with an average remaining term of 9 months. According to Israeli accepted accounting principles prior to the adoption of IFRS, the foregoing type of contract is measured in the balance sheets in a way that fixes the rate of increase of the Israeli CPI for the hedged principal amount.

Direct impact of shekel exchange rates

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

Koor, from time to time, sells or acquires holdings, the consideration of which is in foreign currency, usually in USD. For example, in 2006 Koor sold holdings in Elbit and in 2007 it sold holdings in ECI and in Elbit. The exposure of such transactions refers to the period prior to transaction closing, which often includes uncertainty regarding realization thereof, and after closing if Koor continues holding the transaction consideration in USD.

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

As of the date of this report, Koor does not take steps to hedge exposure relating to the shekel value of foreign currency assets and/or indirect exposure that impacts the performance of investees. Nonetheless, Koor may take steps to hedge such exposures in the future.

Subsequent to the balance sheet date until shortly before the issue of these reports, the dollar exchange rate plummeted by 9.7% from NIS 3.846 to NIS 3.474 per USD. At this stage, from the beginning of Q1 2008 to the date of publication of this report, this drop has resulted in a cumulative loss of NIS 165 million for net balances presented in USD or linked to the USD. The calculation is based on the assumption that there will be no material change in the balance of assets and liabilities, including supplier and customer balances, as set forth in clause 13.3 below. The aforementioned data include initial assessments and partial data available to Koor as of the date of publication of the report. This estimation does not take into account, inter alia, the negative or positive impact of the change in the currency exchange rate on the profitability of investees operating or reporting in USD, or the impact on Koor's profits for losses of investees from their holdings of dollar assets. In addition, the estimation does not refer to the impact of the exchange rate on Koor's shareholders' equity, including the cumulative foreign currency translation adjustments fund. These data have yet to be processed and checked finally, have not been reviewed by Koor's auditors and are subject to further changes in the dollar exchange rate until the end of the quarter. Therefore, there could be changes compared to the aforesaid.

Exposure to market value fluctuations of Koor assets and the impact of market variables on said value

As of the date of this report, Koor does not take steps to hedge against such exposure. Nonetheless, it is possible that in certain cases, such steps will be taken in the future.

Exposure to changes in interest rates

In the past, Koor took steps to hedge interest rate risks by means of transactions to swap variable interest rate to fixed rate in respect to LIBOR interest rate exposure and protection of this type may also be applied in the future. Nonetheless, as of the date of this report, no steps have been taken to hedge the said exposure, which is not material.

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

13.1.1 Means of supervision and implementation of policy

The Company's policies regarding investment of cash balances and protection against financial exposure are carried out by the Company's management and the board's investment committee, which is made up of the Finance Director and capital market consultants. In November 2007, the board of directors appointed the board's investment committee, which includes four directors of which two are external directors. The management reports to the investment committee regarding investment policy for investment of cash balances and protection from exposure, and the board's investment committee examines and approves this policy.

13.1.2 Report of linkage bases

- A. The Company does not manage the risks of its investees. Hereunder are the linkage terms of monetary balances and derivative positions of Koor and its wholly-owned subsidiaries, for which the Company manages currency exposure, as of December 31, 2007.
- B. Koor's linkage terms of monetary balances as of December 31, 2007 (in NIS millions):

	<u>CPI linked</u>	<u>In USD or dollar linked</u>	<u>Other currency or linked thereto</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Total</u>
Assets							
Current assets	177	1,713	5	440	-	95	2,430
Investment in affiliates*	81	54	-	17	2,453	-	2,605
Other investments and receivables	-	8	-	-	117	-	125
Fixed and other assets	-	-	-	-	82	-	82
Total assets	258	1,775	5	457	2,652	95	5,242
Liabilities							
Current liabilities (excluding maturities)	29	3	4	89	-	-	125
Long-term liabilities (including maturities)	2,979	8	-	-	-	-	2,987
Total Liabilities	3,008	11	4	89	-	-	3,112
Assets less liabilities, net	(2,750)	1,764	1	368	2,652	95	2,130

* Including loans to affiliates

- C. Koor's derivative positions as of December 31, 2007 (in NIS millions):

	CPI / NIS			
	Face value	Fair value	Face value	Fair value
	Up to one year		More than one year	
	LONG	LONG	LONG	LONG
Forward contracts for hedging (1)	100	2	400	10

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

The highest value of derivatives during the year (NIS millions):

	CPI / NIS Face value	
	Up to one year	More than one year
	LONG	LONG
Forward contracts for hedging	800	400

- D. Consolidated linkage terms of monetary balances as of December 31, 2007 (in NIS millions):

	<u>CPI linked</u>	<u>In USD or dollar linked</u>	<u>Other currency or linked thereto</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Total</u>
<u>Assets</u>							
Current assets	47	1,764	1	570	62	95	2,539
Investment in affiliates	29	12	-	-	2,569	-	2,610
Other investments and receivables	-	12	-	-	117	-	129
Fixed and other assets	-	-	-	-	136	-	136
Total assets	76	1,788	1	570	2,884	95	5,414
<u>Liabilities</u>							
Current liabilities	312	120	3	112	8	-	555
Long-Term Liabilities	2,705	19	-	-	5	-	2,729
Total Liabilities	3,017	139	3	112	13	-	3,284
<u>Assets less liabilities, net</u>	(2,941)	1,649	(2)	458	2,871	95	2,130

E. Consolidated derivative positions as of December 31, 2007 (in NIS millions):

	<u>CPI / NIS</u>			
	<u>Face value</u>	<u>Fair value</u>	<u>Face value</u>	<u>Fair value</u>
	<u>Up to one year</u>		<u>More than one year</u>	
	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging (1)	100	2	400	10

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

The highest value of derivatives during the year (NIS millions):

	<u>CPI / NIS Face value</u>	
	<u>Up to one year</u>	<u>More than one year</u>
	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging	800	400

13.2 Report on the market risks to which Koor's significant investees are exposed, where such exposure is likely to have a material impact upon Koor

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

from time to time. Exposure to market risks arising from its consolidated companies is not material for Koor.

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

Makhteshim Agan (holding as of date of report: 39%)

Makhteshim Agan operates in the agrochemical sector and is therefore exposed to sectoral risks arising from changes in external factors such as competition in the sector, agricultural policy and weather conditions, as well as factors that affect the demand for its products. Makhteshim Agan manages its business in different business environments operating in various currencies. Makhteshim Agan is exposed to market risks because of its operations, which include changes in exchange rates (mainly with regard to the Euro, NIS and Brazilian Real against the Dollar, which is the Company's operating currency); limited adjustment of product prices to the prices of raw materials with the purpose of reducing the exposure – Makhteshim Agan customarily enters into long-term purchase contracts where this may occur; and changes in the LIBOR interest rate in respect of short- and long-term liabilities. Makhteshim Agan's board of directors approved a policy of using derivative financial instruments for reducing exposure to changes in exchange rates and Israeli CPI increases. Makhteshim Agan's derivative transactions are carried out only through banks and stock exchanges committed to complying with requirements of adequate capital or maintaining levels of securities according to various scenarios. For further details see Section 9.2 of Chapter A of this report (description of Makhteshim Agan's businesses).

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

Sensitivity analysis for changes in interest rates

Section	Fair value	Profit (Loss) from Changes in Interest Rate			
		Rise of		Fall of	
		10%	5%	10%	5%
In NIS millions					
Debentures	(1,641)	36	18	(36)	(18)
Bank loans	(1,382)	11	5	(11)	(5)
	(3,023)	47	23	(47)	(23)

Sensitivity analysis of changes in the US dollar exchange rate

Section	Profit (Loss) from Changes in US dollar exchange rate				
	Fair value	Rise of		Fall of	
		10%	5%	10%	5%
		In NIS millions			
Long-term deposits and loans (including current maturities)	66	7	3	(7)	(3)
Debtors and short-term debit balances	12	1	1	(1)	(1)
Customers	39	4	2	(4)	(2)
Short-term deposits and loans	13	1	1	(1)	(1)
Cash and cash equivalents	1,700	170	85	(170)	(85)
Long-term loans from banks	(15)	(2)	(1)	2	1
Other long-term liabilities	(14)	(1)	(1)	1	1
Suppliers, creditors and credit balances	(75)	(8)	(4)	8	4
Short-term bank credit	(40)	(4)	(2)	4	2
	<u>1,686</u>	<u>168</u>	<u>84</u>	<u>(168)</u>	<u>(84)</u>

Sensitivity analysis of changes in the Euro exchange rate

Section	Profit (Loss) from Changes in the Euro exchange rate				
	Fair value	Rise of		Fall of	
		10%	5%	10%	5%
		In NIS millions			
Trade receivables	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Sensitivity analysis on Israeli CPI changes

Section	Profit (Loss) from Changes in the consumer price index				
	Fair value	Rise of		Fall of	
		0.2%	0.1%	0.2%	0.1%
		In NIS millions			
Short-term deposits and loans	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Sensitivity analysis on changes in negotiable securities price

Section	Profit (Loss) from Changes in negotiable securities price				
	Fair value	Rise of		Fall of	
		10%	5%	10%	5%
		In NIS millions			
Investment in negotiable securities	<u>442</u>	<u>44</u>	<u>22</u>	<u>(44)</u>	<u>(22)</u>

Sensitivity analysis on CPI changes – segments

	Fair value	Profit (Loss) from Changes in the Israeli consumer price index			
		Rise of		Fall of	
		0.2%	0.1%	0.2%	0.1%
Israeli CPI forward contract		In NIS millions			
Hedging – recognized for accounting	12	1	-	(1)	-

14 Directors with accounting and financial expertise

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

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

- Nochi Dankner - LL.B. and B.A. (Political Science). Serves as chairman of the board and CEO of IDB Holdings Corporation Ltd., chairman of the boards of directors of IDB Development Corporation Ltd., of Clal Industries & Investments Ltd., and of Discount Investment Corporation Ltd. He also serves and /or has served as chairman and member of the boards of directors of public and private companies of the IDB Group and of the Ganden Group. He served as a member of the board of directors of Bank Hapoalim Ltd., as chairman of the credit committee and the prospectus committee of the board of directors of Bank Hapoalim Ltd.
- Yitzhak Manor - MBA. Mr. Manor serves as a director in public and private companies in the IDB Group and as chairman of companies in the David Lubinski Group Ltd., vice chairman of IDB Holdings Ltd., director and member of the balance sheet committee of Israel Union Bank Ltd.
- Ami Erel - B.Sc. in Electrical Engineering. Mr. Erel serves as CEO and business manager of Discount Investment Company Ltd., and of Netvision Ltd. He also serves as chairman of the board of directors of Cellcom Israel Ltd., and as a director of Property and Building Company Ltd., Supersol Ltd., Makhteshim Agan Industries Ltd., and of other companies in the IDB Group. He served as chairman of the board and as President and CEO of Elron Electronic Industries Ltd., and as CEO of Bezeq the Israel Telecommunication Corp. Ltd.
- Gideon Lahav - B.A. in Economics. Mr. Lahav serves as a director of Paz Fuel Company Ltd., and First International Bank of Israel Ltd. He also serves as chairman of the Company's audit committee, director of Discount Investments and chairman of Discount Investments' audit committee. In the past he served as a director in other public companies, as CEO of Barclays Discount Bank and as CEO and later as chairman of Israel Discount Bank Ltd.

- Avraham Asheri - B.A. in Economics and Political Science. Mr. Asheri served as a director of the Investments Center, Director General at the Ministry of Trade and Industry, Senior VP at Discount Bank in charge of the business sector, in charge of loans at Discount Bank and eventually also as CEO of Discount Bank. He serves as a director of Discount Mortgage Bank Ltd., Africa Israel Investments Ltd., (external director and chairman of the audit committee), Elron Electronic Industries Ltd. (chairman of the audit committee), Elbit Systems Ltd., and Micronet Ltd.
- Shlomo Rizman - B.A. in Economics and Political Science from the Tel Aviv Law and Economics Academy. Mr. Rizman served as Managing Director of the Farmers Association, a member of Amir Ltd. and Accounting for Farmers Ltd. management, a member of the board of directors of the Liaison Bureau of the Economic Organizations. He serves as a member of the board of directors of the Technion in Haifa, member of the finance committee and chairman of the building committee of the National Insurance Institute in Israel and a member of public associations.

15 Critical accounting estimates

The preparation of the financial statements of the Company and its affiliates in accordance with the generally accepted accounting principals (GAAP) in Israel require their managements to use estimates and assessments which will affect the amounts presented in the financial statements. These include estimates that require taking into account an environment of uncertainty and which has material impact on the presentation of the data in the financial statements.

Hereunder is a description of the critical accounting estimates applied in the preparation of the financial statements, which at the time of preparation required assumptions to be made as to the circumstances and events involved in significant uncertainty. When considering such estimates, the Company or affiliate bases the estimates to be applied, as the case may be, on past experience, various facts, external factors and reasonable assumptions in accordance with the circumstances appropriate for each estimate. The actual results may differ from these estimates.

A. Contingent liabilities

Estimates of the possible outcome of lawsuits filed against the Company and its investees rely on the opinions of the attorneys. The estimates made by the attorneys are based on their best professional judgment while taking into account what stage these proceedings are at and their legal experience in the various matters. As the outcome of the lawsuits will be decided in the courts, such outcome is liable to be different from these estimates.

B. Impairment of assets

In accordance with Accounting Standard No. 15 of the Israel Accounting Standards Board, the Company or the investee, as the case may be, examines on every balance sheet date, whether events occurred or changes took place under circumstances that indicate that there has been a decline in the value of one or more of the non-monetary assets to which this standard applies. Should indications of a decline in value be found, the Company or investee, as the case may be, examines whether the amount of the investment in the asset can be recovered from the anticipated cash flows to be derived from the asset, and if necessary, the difference in the decline in value is recorded up to the recoverable amount. Cash flows forecasts are based on past experience of the asset or similar assets, and on the Company's or investee's, as the case may be, best assessment regarding the prevailing economic conditions during the rest of the asset's useful life span. In determining the net price of part of the assets, the company makes use of an assessor's evaluation. With respect to real estate properties, the estimates also take into account the condition of the real estate market in the area in which the property is located.

The increasing competition in the retail and real estate markets is liable to materially impact the cash flow forecasts, the remaining useful life span and the net selling price of the assets.

C. Allocation of surplus costs in the acquisition of companies to the various acquisition sections

Pursuant to Accounting Standard No. 20 (Revised) of the Israel Accounting Standards Board, the Company should allocate the excess cost incurred by the acquisition of companies to the various assets captions, in as far as is possible. The excess cost that cannot be allocated refers to goodwill. The excess cost allocated to the various acquisition assets is amortized at the rate of depreciation of said assets. Allocating the excess cost to the various acquisition assets could lead to a different depreciation period.

16 IFRS

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS). The standard stipulates that companies subject to the provisions of the Securities Law, 1968, and which are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. The standard allows for early adoption starting with financial statements that are issued subsequent to July 31, 2006.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007 balance sheet data as of December 31, 2007 and a statement of operations for the year ended on same date, following implementation, in respect of thereof, of the IFRS principles of recognition, measurement and presentation.

The Company intends to adopt the IFRS standards starting from the financial statements as of January 1, 2008.

For further details in this respect, see Note 29 to our financial statements.

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

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

Company board of directors and audit committee.

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

The Company's board of directors appointed the audit committee to serve as a "balance sheet committee", which presented it with the main issues of the detailed discussion concerning the financial statements and makes recommendations to the board concerning their approval. The financial statements are approved by the board of directors. The members of the balance sheet committee are Mr. Gideon Lahav, Mr. Avraham Asheri, Ms. Ayelet Ben-Ezer and Mr. Shlomo Rizman, who is an external director with financial expertise. The Company's internal auditor is invited to and attends the "balance sheet committee" meetings. The Company's auditor is invited to and attends the "balance sheet committee" and the board of directors meetings at which the financial statements are discussed and approved, and is required to explain the principal findings, if any, which arose during the audit or the review.

The "balance sheet committee" examines, with the aid of detailed presentations made by officers and others in the Company, including the CEO, Mr. Raanan Cohen, and the comptroller, Ms. Michal Yageel, the significant issues in the financial report, including transactions outside of the ordinary course of the Company's business, if any, the material assessments and critical estimates applied in the financial statements, the reasonableness of the data, the accounting policy applied and the changes that have occurred in it, and the application of the principle of proper disclosure in the financial statements and accompanying

information. The "balance sheet committee" also examines various aspects of control and risk management, both those which are reflected in the financial statements (such as the reporting on financial risks) and those that affect the reliability of the financial statements. Where necessary, the balance sheet committee requests a comprehensive review of matters of significant implication.

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

18 Managers and employees of the Company and the investees

We wish to extend our appreciation to the Company's management and employees, and to the management and employees of the investees, for their work, effort and contribution to the Company and the investees throughout this year.

Ami Erel

Chairman of Board of Directors

Raanan Cohen

CEO

Tel Aviv, March 17, 2008