SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

Annual Report pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

Commission file number **1-9178**

KOOR INDUSTRIES LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

14 Hamelacha Street, Rosh Ha'ayin 48091, Israel
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, Each Representing 0.20 Ordinary Shares, Par Value NIS 0.001 Per Share	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

16,033,213 Ordinary Shares, Par Value NIS 0.001 Per Share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes **X**   No____

Indicate by check mark which financial statements the registrant has elected to follow:

Item 17 **X**   Item 18____

PRELIMINARY NOTE

This annual report contains historical information and forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 with respect to Koor's business, financial condition and results of operations. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project" and "should" and similar expressions, as they relate to Koor or its management, are intended to identify forward-looking statements. Such statements reflect the current views and assumptions of Koor with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results, performance or achievements of Koor to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this annual report. These risks are more fully described under Item 3, "Key Information – Risk Factors" of this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. Koor does not intend or assume any obligation to update these forward-looking statements.

In this annual report, unless otherwise specified or unless the context otherwise requires, all references to "Koor," "we," "us," or "our" are to Koor Industries Ltd., a company organized under the laws of the State of Israel, and its consolidated subsidiaries.

In this annual report, unless otherwise specified or unless the context otherwise requires, all references to "$" or "dollars" are to U.S. dollars and all references to "NIS" are to New Israeli Shekels. Unless otherwise stated, certain amounts reported in adjusted NIS on Koor's consolidated financial statements for the year ended December 31, 2004 have been translated into U.S. dollars for the convenience of the reader at the exchange rate of the dollar on December 31, 2004 (NIS 4.308 = $1.00), as published by the Bank of Israel (see Note 2B to our consolidated financial statements included elsewhere in this annual report). Therefore, it is possible to compute the dollar equivalent of any of the figures in adjusted NIS by dividing such NIS by the rate of exchange at December 31, 2004.

In this document, all references to Koor's percentage of equity ownership in its subsidiaries are prior to having taken into account the possible dilution that may be caused by the exercise of options granted to executive officers of certain subsidiaries or of other convertible securities.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not Applicable.

Item 2. Offer Statistics and Expected Timetable.

Not Applicable.

Item 3. Key Information.

Selected Financial Data

The following selected consolidated financial data as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements included in this annual report. These financial statements have been prepared in accordance with generally accepted accounting principles in Israel, or Israeli GAAP, which differ in certain respects from U.S. GAAP (see Note 28 to our consolidated financial statements included elsewhere in this annual report), and audited by KPMG Somekh Chaikin, independent registered public accountants. As described in Note 28 to our financial statements included elsewhere in this annual report, we have restated the reconciliation of material differences between Israeli GAAP and U.S. GAAP for the years ended December 31, 2002 and 2003. The consolidated selected financial data as of December 31, 2000, 2001 and 2002 and for the years ended December 31, 2000 and 2001 have been derived from other audited consolidated financial statements not included in this annual report and have also been prepared in accordance with Israeli GAAP and audited by KPMG Somekh Chaikin, except for the U.S. GAAP data for these periods that have been restated as explained above. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to "Item 5, Operating and Financial Review and Prospects" and the consolidated financial statements and notes thereto and other financial information included elsewhere in this annual report.

The financial data amounts are expressed in adjusted NIS or in dollars. For the convenience of the reader, the 2004 data contains translation of NIS into dollars. No representation is made that NIS amounts have been, could have been or can be converted into dollars at the prevailing rate on December 31, 2004, or at any other rate. In accordance with amendments to Israeli GAAP published in October 2001 and December 2002, our financial statements for the year ended December 31, 2004 are no longer adjusted to reflect the effects of inflation. For all financial reporting periods until December 31, 2003, Israeli GAAP required that our consolidated financial statements recognize the effects of inflation. Consequently, all figures for prior periods have been adjusted to reflect the increase in the Israeli Consumer Price Index, or CPI, and are accordingly all expressed in terms of the purchasing power as of December 31, 2003, and not in the figures as originally reported.

	Year Ended December, 31					
	2000	2001	2002	2003	2004	2004
	(*In thousands, except share and per share data*)					
	Adjusted NIS as of December 31, 2003				NIS	US Dollars
Operating Data:						
Israeli GAAP:						
Revenue from sales and services	8,292,026	7,463,419	7,099,790	7,690,430	9,228,673	2,142,218
Gross profit	2,094,776	1,697,733	1,784,010	2,297,486	2,940,994	682,682
Operating earnings	713,507	358,437	479,864	896,285	1,242,786	288,483
Financing expenses, net	323,051	432,437	408,437	228,200	271,362	62,990
Other income (expenses), net	168,037	(622,660)	5,824	(219,721)	(78,759)	(18,282)
Minority interest in consolidated companies' results, net	(54,102)	8,367	(60,049)	(202,807)	(432,888)	(100,485)
Net earnings (loss) from continuing activities	56,722	(2,621,648)	(766,969)	46,362	144,990	33,656
Result of discontinued activities, net	226,928	(29,279)	-	-	-	-
Net earnings (loss)	283,650	(2,650,927)	(766,969)	46,362	144,990	33,656
Basic earnings (loss) per share	18.44	(174.54)	(50.55)	2.95	8.851	2.054
Weighted average number of shares used in computing basic earnings (loss) per share	15,384,206	15,188,463	15,173,291	15,716,725	16,381,279	16,381,279
Diluted earnings (loss) per share	18.36	(174.54)	(50.55)	2.95	8.851	2.054
Weighted average number of shares used in computing diluted earnings (loss) per share	15,597,253	15,188,463	15,173,291	15,716,725	16,381,279	16,381,279
U.S. GAAP [(1)]:						
Net income (loss)	245,658	(2,599,987)	(762,511)	(108,924)	111,572	25,899
Basic earnings (loss) per ordinary share	15.96	(171.17)	(50.25)	(7.04)	7.05	1.64
Basic earnings (loss) per ADS	3.19	(34.23)	(10.05)	(1.41)	1.41	0.33
Diluted earnings (loss) per ordinary share	15.90	(171.17)	(50.65)	(7.82)	4.89	1.14
Diluted earnings (loss) per ADS	3.18	(34.23)	(11.75)	(1.56)	0.98	0.23
Balance Sheet Data:						
Israeli GAAP:						
Working capital	1,047,465	1,859,986	1,160,293	1,046,276	1,086,450	252,193
Total assets	15,704,961	13,514,082	13,432,798	11,869,757	13,147,566	3,051,896
Short-term debt	2,856,290	1,811,662	2,315,499	1,577,402	1,738,456	403,541
Long-term debt	3,518,561	4,934,834	4,339,578	3,119,837	2,341,115	543,434
Shareholder's equity	4,563,106	2,195,834	1,727,169	1,740,393	1,876,467	435,577
U.S. GAAP [(1)]:						
Total assets [(2)]	15,694,727	13,818,527	13,788,604	12,012,241	6,360,235	1,476,378
Shareholder's equity	4,349,412	2,065,672	1,626,469	1,582,122	1,767,850	410,364
Number of shares outstanding	15,192,379	15,168,884	15,173,377	15,741,160	15,824,185	15,824,185

[1] U.S. GAAP amounts for the years ended December 31, 2000, 2001, 2002 and 2003 have been restated. See Note 28 to our consolidated financial statements included elsewhere in this annual report.

[2] MA Industries' financial statements are not included in our consolidated financial statements as of and for the year ended December 31, 2004 for U.S. GAAP, but rather are recognized according to the equity method. See also Note 28 to our consolidated financial statements included elsewhere in this annual report.

Exchange Rate Information

The following table shows, for each of the months indicated the high and low exchange rates between New Israeli Shekels and U.S. dollars, expressed as shekels per U.S. dollar and based upon the daily representative rate of exchange as reported by the Bank of Israel:

Month	High (NIS)	Low (NIS)
January 2005	4.414	4.352
February 2005	4.392	4.357
March 2005	4.379	4.299
April 2005	4.395	4.360
May 2005	4.416	4.348
June 2005	4.574	4.405

The following table shows, for periods indicated, the average exchange rate between New Israeli Shekels and U.S. dollars, expressed as shekels per U.S. dollar, calculated based on the average of the exchange rates on the last day of each month during the relevant period as reported by the Bank of Israel:

Year	Average (NIS)
2000	4. 078
2001	4. 203
2002	4.738
2003	4.530
2004	4.482

The effect of exchange rate fluctuations on our business and operations is discussed in "Item 5. Operating and Financial Review and Prospects."

Dividends

In determining whether to declare a dividend, our Board of Directors may take into consideration, among other things, our profits, business and financial condition, economic circumstances and other conditions, as deemed appropriate by our Board of Directors.

We did not pay or declare any dividend for 2004, 2003, 2002 or 2001. We paid final dividends of NIS 4.10 per share in 2000.

Risk Factors

Risks Related to Koor

We depend on our subsidiaries and affiliates for distributions and management fees.

We conduct our business primarily through our wholly and partially owned subsidiaries and affiliates, and are partially dependent upon management fees and cash distributions from our subsidiaries and affiliates as a source of cash flow for funding our corporate level activities. We received management fees in the amount of NIS 22 million and NIS 25 million in 2004 and 2003, respectively, pursuant to management agreements between us and several of our subsidiaries and affiliates. In addition, in 2004 and 2003 we received NIS 135 million and NIS 28 million, respectively, in distributions from subsidiaries and affiliates, of which NIS 68 million and NIS 18 million, respectively, was received from Makhteshim-Agan Industries Ltd., or MA Industries. Of the NIS 135 million in distributions we received in 2004, NIS 67 million was received as a liquidating distribution in respect of our wholly-owned subsidiary, Tadiran Ltd.

In recommending dividends and approving management fees, the directors and applicable committees of each of our subsidiaries must take into consideration the legal, tax, and financial effects of such dividends and management fees, as well as the best interests of each such subsidiary. In addition, several of our subsidiaries and affiliates are subject to dividend payment restrictions derived from their organizational documents, credit agreements and tax considerations. If we were to experience a substantial reduction in the level of payments of dividends and management fees, there can be no assurance that alternative sources of cash flow, including bank loans and asset sales, would be available for us to carry out our investment plans, pay dividends on our capital stock and service our debt.

In addition, all of our unsecured indebtedness is effectively subordinated to all liabilities, including trade payables of our subsidiaries and affiliates. Any right we have to receive assets of our subsidiaries and affiliates upon their liquidation or reorganization (and the consequent right of the holders of our indebtedness to participate in those assets) will be effectively subordinated to the claims of that subsidiary's or affiliate's creditors (including trade creditors), except to the extent that we are recognized as a creditor of such subsidiary or affiliate, in which case our claims would still be subordinate to any security interests in the assets of such subsidiary or affiliate and any indebtedness of such subsidiary or affiliate senior to that held by us. Under Israeli law, certain indebtedness of a company under liquidation, including certain indebtedness resulting from an employment relationship or tenancy, and certain indebtedness resulting from governmental and municipal tax liabilities, may rank senior to other unsecured indebtedness.

Continuing adverse conditions in the telecommunications industry and in the market for telecommunications equipment have led to decreased demand for our products and have harmed and may continue to harm our business, financial condition and results of operations.

For the years ended December 31, 2004 and 2003, our telecommunication equipment business accounted for approximately 6.7% and 10.4%, respectively, of our consolidated net sales. Our business in this industry is primarily conducted through our proportionately

consolidated subsidiary Telrad Networks Ltd., or Telrad. We also own approximately 30.2% of ECI Telecom Ltd., or ECI, a publicly traded company engaged in the telecommunication equipment business, whose results are not consolidated in our financial statements, but are accounted for based on the equity method. Telrad's equipment and ECI's systems are used by telecommunications carriers and service providers. From 2001 through the first half of 2003, many telecommunications carriers and service providers in markets throughout the world experienced substantial declines in sales and revenues and incurred significant operating losses. In addition, many carriers and service providers stopped deploying new networks or ceased operations completely and are no longer potential users of Telrad's products or ECI's products. The general worldwide economic downturn has curtailed the ability of existing and prospective carriers and service providers to finance purchases of products such as Telrad's and ECI's, leading to a sharp decline in orders for new telecommunications equipment. For these reasons, Telrad and to a lesser extent ECI, have experienced severe declines in sales since the beginning of 2001 and were forced to take substantial measures to reduce expenses since 2001, including downsizing manpower, streamlining operations and divestiture of non-core businesses. As a result of the losses incurred by ECI during 2001 and 2002, we wrote-down the book value of our investment in ECI below its equity value to us and wrote-off the excess goodwill relating to that investment. Following a valuation of ECI performed by an independent appraiser in November 2003, we reversed the loss from decline in value of approximately NIS 73 million. The reversal of this loss was charged against the capital reserve from foreign currency translation adjustments (credit), which was realized when the provision was created. Under U.S. GAAP, however, this loss was not reversed. As of December 31, 2004, the balance of our investment in ECI was approximately NIS 673 million, reflecting our share in ECI's equity.

Since the second half of 2003, there has been an improvement in the general market for telecommunications equipment. However, we are unable to predict the duration of this trend or the extent of any impact that it may have on our revenues or results of operations. Any return to a prolonged and substantial curtailment of growth in the telecommunications industry will likely have an adverse impact, which may be material, on our business, financial condition and results of operations. In addition, market perception that these conditions could have an impact upon us may harm the trading price of our ordinary shares, whether or not our business or results of operations are actually affected.

We need to develop and introduce new products in the telecommunication equipment and defense electronics businesses in order to remain competitive in those industries. We are also partially dependent on licensed technology.

For the years ended December 31, 2004 and 2003, our telecommunication equipment and defense electronics businesses together accounted for approximately 19.3% and 27.1%, respectively, of our consolidated net sales, and 48.8% and 60.9%, respectively, of our total consolidated research and development expenses. In addition, as of December 31, 2004 and 2003, our investment in ECI accounted for 76.3% and 60.9%, respectively, of our total investments in the telecommunications equipment industry, and our investment in Tadiran Communications Ltd., or Tadiran Communications accounted for 73.9% of our total investments in the defense electronics industry as at December 31, 2004. The businesses and markets in these segments are characterized by rapid technological development. Consequently, the ability to anticipate changes in technology and to develop and introduce new and enhanced products

incorporating such new technologies on a timely basis will be significant factors in the ability of these businesses to grow and remain competitive. Several of our competitors in the defense electronics industry have significantly greater resources (monetary, research and development and personnel), and may be able to exert political pressures on potential customers to further their interests. Furthermore, mergers that took place between companies in the defense industries world-wide, may impede our ability to compete in this industry. In contrast to our competitors in the defense industry, which offer their customers a range of equipment and systems, Tadiran Communications' business is focused largely on military communication equipment, and Elisra Group's business is focused largely on electronic warfare, therefore they are more vulnerable to changes in the industry than their competitors We cannot assure you that we will be able to develop new products and technologies on a timely basis in order to remain competitive in the telecommunication equipment and defense electronics industries. In addition, one of our objectives is to continue to seek to apply several of the advanced technologies developed in our defense electronic businesses to new commercial products. However, we cannot assure you that such technologies will be successfully applied or that markets will develop for such products. Furthermore, although we believe that there will be continued use of existing products in the defense electronics industry (subject to improvements) we cannot be certain that there will not be a transition to new product types that may diminish the market for our existing products.

Telrad, one of our significant investees, depends on one key customer.

Telrad, one of our significant investees, is substantially dependent upon its relationship with Nortel as a key supplier of technology and as a key customer of Telrad's products. For the years ended December 31, 2004 and 2003, approximately 2.5% and 4.4 %, respectively, of our consolidated net sales and 50.0% and 51.4%, respectively, of Telrad's sales were derived from sales to Nortel. Accordingly, Telrad's sales volume is directly influenced by Nortel's sales forecasts and actual purchases. Although we and Telrad believe that the relationship with Nortel is generally good, if such relationship was to be terminated or diminished for any reason, it could have a material adverse affect on Telrad's business, financial condition or results of operation, which may have an adverse effect on our business as a whole.

We rely on the expiration of patents and depend on regulatory approval in the agrochemicals industry.

For the years ended December 31, 2004 and 2003, our agrochemicals business accounted for approximately 74.7% and 67.5%, respectively, of our consolidated net sales. Our business in this industry is conducted through our subsidiary Makhteshim-Agan Industries Ltd., or MA Industries. As of January 1, 2005 MA Industries will no longer be consolidated in our financial statements, but will be accounted for according to the equity basis. See Note 27(4) to the consolidated financial statements included elsewhere in this annual report.

Several of MA Industries' subsidiaries specialize in the improvement and production of generic agrochemical products, which are products that are based on expired patents. Development of new generic products requires substantial expenditures for research and development, product registration, construction of production lines and marketing in support of new product introduction. An important component for the growth of the agrochemicals business is the successful introduction of new generic chemical products to the market in a

timely manner (promptly after patents expire). Reintroduction of any new legislation to extend the life of patents on chemical products could adversely affect the ability of the agrochemicals business to introduce new products.

Patent protection in Europe is valid for 20 years from the date of application. During the beginning of any patent term, the companies that own patents deal in licensing products in various countries. In February 1997, offices of the European Authority approved an extension of the validity of patents filed for registration since 1985. The extension of the patent term for an additional period ensures patent owners an additional period of exclusivity of 15 years from the date of receipt of first license, provided that the addition may not be greater than 5 years. In most countries, marketing of new products is conditional upon obtaining licensing from the competent authority. The obtaining of licenses is a lengthy process with substantial costs. A possible delay in the development of new products or in obtaining requisite licenses could have a negative effect on our results of operation and financial status.

Most countries require us to obtain regulatory approval prior to selling newly introduced products, which is both time consuming and expensive. Any delay in the development or introduction of new products or in obtaining regulatory approval from the countries in which our agrochemicals business markets its products may have a material adverse effect on our results of operations and financial condition. In addition, new developments in the field of trans-genetic plant species that are toxic to insects, and plant species that are resistant to fungal disease, may have an adverse effect on our agrochemicals business.

Economic instability in the emerging markets of South America and Central and Eastern Europe poses a risk to our agrochemicals business.

The activity of MA Industries in South America (mainly Brazil) and in countries in Eastern Europe, is exposed to risk resulting from the possibility of economic instability in these countries such as exchange rate fluctuations (customer accounts receivable are in local currency), high inflation and interest rates, and changes in economic legislation. A portion of the above mentioned risks are hedged by means of various instruments. The relative share of our agrochemicals activities in these markets is decreasing over the years due to MA Industries' strategy to expand its activities in economically-stable markets.

Disruption in the supply of raw materials and/or disruption in transportation services could have a negative impact on our agrochemicals business.

MA Industries imports raw materials to its manufacturing facilities in Israel, and exports products to its non-Israeli subsidiaries for manufacturing, formulation and distribution through three Israeli ports. In the event that one of these ports will be disrupted for an extended period of time, such as during an employee strike, MA Industries may have significant difficulty obtaining raw materials required for manufacture of its products, or obtaining them at economically viable prices. Similarly, MA Industries may be unable to transport its products to its non-Israeli subsidiaries for manufacturing, formulation and distribution, or to transport them at reasonable costs. Therefore, extensive disruptions at one of these ports could have a negative effect on our agrochemicals business.

Concentration of manufacturing in a limited number of manufacturing facilities could pose a risk for our agrochemicals business.

A significant part of the manufacturing activities of MA Industries takes place in a limited number of facilities. Significant damage to any of these facilities due to natural disaster or other causes could have a significant negative impact on our agrochemicals business.

Our operations are exposed to environmental risks and are subject to environmental regulation.

The operations of several of our subsidiaries are exposed to the risk of harming the environment, as they manufacture, use, transmit, store and sell toxic and other materials. We believe that these subsidiaries are in compliance with applicable environmental laws and regulations and we have born considerable costs and investments in order to ensure such compliance. We cannot estimate the size or impact of additional expenditures that may be required in the event of amendments to applicable environmental laws or adverse decisions of applicable regulatory authorities. In addition, the risks of causing environmental damage are not insurable risks.

MA Industries possesses various permits from environmental regulatory authorities that stipulate conditions for the operation of its manufacturing facilities. The expansion of the facilities requires new or additional permits. The terms of the permits may be altered and/or revoked by the environmental regulatory authorities and this may have a negative impact on our agrochemicals business.

Our agrochemicals business may be negatively impacted in the event of significant product liability claims that exceed our insurance coverage.

The activities of MA Industries are exposed to risk relating to product liability claims. MA Industries has insurance coverage for third party liability and defective products of up to $265 million per annum. In the event that MA Industries would be found liable in a lawsuit concerning product liability, its insurance coverage may not be sufficient to cover the damages, and this may have a significant negative impact on our agrochemicals business. Furthermore, publication of the existence of such a claim could have a negative impact on the reputation of MA Industries, and this could have a negative impact on its business.

Our investments in hi-tech companies involve a high degree of risk.

Koor Corporate Venture Capital, or Koor CVC, is the venture capital arm of Koor Industries. As at December 31, 2004 Koor CVC's portfolio comprised of 10 companies, a limited partnership in Pitango venture capital fund and a 27% interest in Scopus Network Technologies Ltd., with a total book value of NIS 181 million (approximately $42 million).

Our investment in hi-tech and venture capital companies carries with it a high level of risk. The main risk factors are:

- The uncertainty involved in advanced technological developments in the fields of internet and telecommunications, and the lack of certainty that a product will actually be developed or, if and when it is developed, that a market will be found for it, as well as the high marketing costs and intense competition in these fields;
- The uncertainty existing on the date of commencement of projects as to the total investment required for developing a product and the lack of certainty that funding will be found for the continued development and marketing of products, if developed;
- The rapid technological changes that characterize the industries of the companies in which we have invested could reduce or cancel demand for products developed by such companies;
- The dependence of start-up companies, including those in which we have invested, on their founders or on key personnel, especially in the areas of management and development;
- The lack of certainty regarding the ability of the companies in which we have invested to recruit appropriate personnel, in particular when faced with increasing competition for quality personnel;
- The lack of intellectual property protection for internet products and increased competition in this area; and
- The lack of ability to control and manage a company in which we hold a minority stake.

We are under investigation by the Israeli Office of Restrictive Trade Practices.

On February 2, 2005 , we received a notice from the Office of Restrictive Trade Practices (the Israeli Anti-Trust Authority) that it was considering the possibility of prosecuting us, together with seven other companies that are not members of the Koor Group (including two companies that had been owned by Koor on the relevant dates, and were later sold to third parties) and nine executives (including two executives who had been salaried employees of Koor on the relevant dates), for violations of the Law for Restrictive Trade Practices, 1988 (the Israeli Anti-Trust Law). On June 7, 2005, we received a bill of indictment from the Israeli Anti-Trust Authority in accordance with the abovementioned notice. The bill came in the wake of an investigation opened by the Israeli Anti-Trust Authority in the other companies during 2001, with respect to price fixing and collusion, and the lack of competition in the frozen and canned vegetable industry. The Israeli Anti-Trust Authority claims that the two companies that

belonged to the Koor Group in the past had colluded with two other companies in the years 1992-1998.

Under the Israeli Anti-Trust Law, penalties may be imposed against an entity which has violated the law. In addition, should it be proven that violations were committed, civil lawsuits may be filed against us and we may be subject to civil penalties, if damages can be proven as a result of a violation of the law. At this early stage, it is not possible to predict the likelihood that any fines will be imposed on us or any civil lawsuits will be filed against us, nor whether any such fines or lawsuits would have an adverse effect on our business, financial condition or results of operations.

See also Note 18A1(b) to our consolidated financial statements included elsewhere in this annual report.

Several of our subsidiaries are exposed to fluctuations in prices of raw materials and commodities.

Several of our subsidiaries, primarily those in the agrochemical industry, have exposure to risks stemming from fluctuations in prices of raw materials and agricultural commodities. An increase in raw material prices or a decrease in commodity prices (which could lower the selling prices of our products) could lower the profitability of our business.

Reduction in worldwide spending for military products may adversely affect our profit.

For the years ended December 31, 2004 and 2003, sales of military products accounted for approximately 12.6% and 16.8%, respectively, of our consolidated net sales. Around the world and in Israel demand for military products has been generally declining during the past few years. This ongoing trend has negatively affected the size and rate of receipt of orders and resulted in a decrease in backlog to NIS 2.0 billion as of December 31, 2004 compared to NIS 2.2 billion as of December 31, 2003. In order to counter the decrease in the Israeli budget, we are seeking to increase our position in international markets by identifying additional potential avenues for growth; however, we may not be successful in doing so. In the event that general military expenditures continue to decline worldwide and are reduced in Israel for systems or projects of the type we produce or perform, and are not offset by greater foreign sales or other new systems or products, there will be a reduction in the volume of contracts or subcontracts we are awarded. Such reductions may result in a material adverse effect on our results of operations and financial condition.

Revocation of security clearance and/or permits and licenses could have a significant negative impact on our defense electronics business.

Companies in our defense electronics business have security clearance in the United States and Germany that enables them to carry out classified projects in these countries. Furthermore, these companies have licenses to export and permits to conduct marketing activities from the governments of Israel, the United States and Germany. The revocation of this security clearance and/or these permits and licenses could have a material adverse effect of our defense electronics business.

The trend towards regulatory control standards in the defense electronics industry could have an adverse effect on our market share in this industry.

Today there are no regulatory standards for certain classified technologies in the defense electronics industry and each company develops its own proprietary technology. In Europe, there has been a recent trend toward the setting of regulatory standards for such technologies, which may not be accessible to our defense electronics companies due to security clearance. If this occurs our market share in the defense electronics industry may be negatively impacted.

Risks Related to Israel

Exchange rate fluctuations and inflation in Israel impact our business.

A significant portion of the sales of our major subsidiaries and affiliates are made outside Israel in dollars or other non-Israeli currencies while these companies incur significant portions of their expenses in NIS. Alternatively, some subsidiaries and affiliates whose sales are principally in NIS incur expenses in dollars or in other non-Israeli currencies. For example, a significant portion of the sales of our telecommunication equipment, defense electronics and the agrochemicals businesses are in dollars, whereas a significant portion of these businesses expenses are incurred in NIS and are partially linked to the Israeli CPI. In addition, certain borrowings are linked to the dollar or other non-Israeli currencies or to the CPI. During the calendar years 2002, 2003 and 2004, the annual rate of inflation was approximately 6.5%, -1.9% and 1.2%, respectively, while the NIS depreciated against the dollar by approximately 7.3% in 2002 and appreciated against the dollar by approximately 7.6% and 1.6% in 2003 and 2004, respectively. Consequently, during the calendar years 2002, 2003 and 2004, the annual rate of inflation as adjusted for devaluation was approximately –0.7%, 6.2% and 2.8%, respectively. Continued delay in or lack of any devaluation of the NIS in relation to the dollar or other currencies may have a material adverse effect on our results of operations and financial condition.

To compensate for inflation in Israel and changes in the relative value of Israeli currency compared to the dollar and other currencies, we have adopted financial strategies, including entering into foreign currency transactions with respect to certain specific commitments and general hedging transactions with respect to monetary assets and liabilities denominated in non-Israeli currencies (including Brazilian currency). There can be no assurance, however, that such activities, or others that we may undertake from time to time, will eliminate the negative financial impact of such fluctuations.

Conditions in Israel may affect our operations.

We and our principal subsidiaries and affiliates are incorporated under the laws of the State of Israel, where our principal offices and a substantial portion of our operations are located. We are directly influenced by the political, economic and military conditions affecting Israel. Accordingly, any major hostilities involving Israel, the interruption or curtailment of trade between Israel and its present trading partners, a significant increase in inflation or a significant downturn in the economic or financial condition of Israel could have a material adverse effect on our business, our results of operations and our financial condition. In addition, there are a

number of countries, particularly in the Middle East, which restrict business with Israel or Israeli companies. There can be no assurance that restrictive laws or policies directed toward Israel or Israeli businesses will not have an adverse impact on the expansion of our business.

The increased hostilities in the West Bank and Gaza Strip affect tourism and other businesses.

Since September 2000, there has been an escalation of violence in the West Bank and Gaza Strip and increased terrorist activities within Israel, causing a sharp decrease in tourism to Israel and a further deceleration in all aspects of the Israeli economy. The areas of tourism and aviation have been most affected by the increased hostilities, and the recession in the Israeli real estate market has become more entrenched.

Many of our directors, officers and employees are obligated to perform military reserve duty in Israel.

Generally, Israeli adult male citizens and permanent residents through the age of 48 are obligated to perform up to 36 days of military reserve duty annually. Some of our directors, officers and employees are currently obligated to perform annual reserve duty. Additionally, under emergency circumstances, all such persons are subject to being called to active duty at any time. We have operated effectively under these requirements since we began operations. No assessment can be made, however, as to the full impact of these requirements on our workforce or business if conditions should change and we cannot predict the effect on us of any expansion or reduction of these obligations.

Israel’s economy may be destabilized.

Israel’s economy has been subject to a number of destabilizing factors. These include a period of severe inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and civil unrest. For these and other reasons, the Government of Israel has intervened in different sectors of the economy. Such intervention has included employing fiscal and monetary policies, import duties, foreign currency restrictions and controls of wages, prices and foreign currency exchange rates. The Israeli government has periodically changed its policies in all of these areas. Changes in these policies may make it more difficult for us to operate our business as we have in the past.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers and the Israeli experts named herein, all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since substantially all of our assets, all of our directors and officers and the Israeli experts named in this prospectus, are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933, as amended, or Securities Act, and the Securities Exchange Act of 1934, as amended, or the

Exchange Act, in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of the Securities Act and the Exchange Act.

We depend on the availability of certain government benefits and programs. If any of the companies in which we have invested and which have been granted such benefits fail to comply with the requisite conditions, we may be required to return benefits previously received or may be unable to utilize tax benefits.

We derive and expect to continue to derive benefits from various programs and laws in Israel including tax benefits relating to our "approved enterprise" programs and grants from the Office of the Chief Scientist, or OCS, for research and development. For the years ended December 31, 2004 and 2003, our consolidated companies received government grants in the fields of research and development of approximately NIS 16 million and NIS 21 million, respectively. To be eligible for these grants, programs and tax benefits, we must continue to meet certain conditions, including making certain specified investments in fixed assets from our equity. From time to time, the Israeli government has discussed reducing or eliminating the availability of these grants, programs and benefits. A change in government policy in these areas would likely have a negative affect on our results of operation and financial condition.

Under this program, by virtue of the "approved enterprise" status granted to several of our subsidiaries and several of the companies in which we have invested, these companies are entitled to various tax benefits. The income derived from these companies during a period of up to 10 years, from the year in which these companies 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 reduced corporate tax rate ranging from 0-25%. These companies with "approved enterprise" status are also entitled to an accelerated amortization deduction for fixed assets serving these companies, mainly in respect of equipment that is usually amortized over a period of three to five years.

In the event that one of our subsidiaries or investee companies distributes a dividend to shareholders out of income attributable to revenues from an approved enterprise which has received a tax exemption, the company that distributes the dividend is usually taxed at a rate of 25% of the profit distributed. However, we did not record deferred taxes in respect of income from approved enterprises that may in future be distributed as a dividend, since it is our policy not to initiate a distribution of a dividend that involves an additional tax liability to us.

Benefits are conditional upon the fulfillment of terms set forth by law or in deeds of approval. Non-fulfillment of such terms could cause cancellation of the approved enterprise benefits, in whole or in part, and the return of previously provided benefits plus interest and linkage differentials. As of December 31, 2004, the managements of our subsidiaries and the companies in which we have invested which have been granted "approved enterprise" status believe that these companies will comply with the terms set forth above and will not be required to return any benefits previously received.

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

The amount by which our taxes would increase depends on the difference between the then-applicable tax rate for non-approved enterprises and the rate of tax, if any, that our subsidiaries and the companies in which we have invested would otherwise pay as an approved enterprise, and the amount of any taxable income that they may earn in the future.

On March 29, 2005 the Israeli parliament approved a reform of the Encouragement of Capital Investments Law – 1959, or the Reform, applicable as of April 1, 2005. The Reform includes changes to the criteria for eligibility for tax benefits as well as certain procedural changes under the "Alternative Benefits" (tax benefits) track, mainly cancellation of the requirement for prior approval from the Investment Center and authorization of the eligibility for tax benefits within the framework of the income tax audit. The main criteria for eligibility for tax benefits are existence of an industrial plant; certain marketing restrictions; and investment in production equipment in accordance with stipulated amounts.

The Reform grants the following additional benefit alternatives under the "Alternative Benefits" (tax benefits) track, subject to certain restrictions:

- Corporate tax of 11.5% for ten years, and additional tax of only 4% on dividend distributions for a foreign investor, or 15% for an Israeli investor; and
- Companies with consolidated revenues exceeding NIS 13 billion and an investment of at least NIS 600 million in an industrial company that has an approved enterprise in a preferred area, will be exempt from corporate tax for ten years, and dividends distributed from these earnings will be tax exempt.

We believe that our relevant subsidiaries and investees meet the criteria of the Reform.

If our subsidiaries and the companies in which we have invested are required to pay a significant amount of additional taxes, our business, financial condition and results of operation could be materially adversely affected.

Risks Related to Our Ordinary Shares

Our share price may be volatile and may decline.

Numerous factors, some of which are beyond our control, may cause the market price of our ADSs or ordinary shares to fluctuate significantly. These factors include, among other things, announcements of technological innovations, earnings releases by us or our competitors, market conditions in the industry and the general state of the securities markets (in particular the technology and Israeli sectors of the securities markets).

Our operating results in one or more future periods may fluctuate significantly and may cause our share price to be volatile.

Our quarterly operating results may be subject to significant fluctuations due to various factors, including divestitures of companies, competitive pressures and general economic conditions. Because a significant portion of our overhead consists of fixed costs, our quarterly results may be adversely impacted if sales fall below management's expectations. As a result, our results of operations for any quarter may not be indicative of results for any future period. Due to all of the foregoing factors, in some future quarters our sales or operating results may not meet the expectations of public market analysis or investors. In such event, the market price of our ADSs and ordinary shares would likely be materially adversely affected.

Item 4. Information on the Company.

We are a company limited by shares organized and existing under the laws of the State of Israel. We were initially incorporated in 1944 and our full legal and commercial name is Koor Industries Ltd.

The address of our registered office is 14 Hamelacha Street, Rosh Ha'ayin 48091, Israel, and our telephone number is +972-3-900-8333. The address of our Internet website is: www.koor.com. Our ADSs are listed on the New York Stock Exchange and our ordinary shares are listed on the Tel-Aviv Stock Exchange.

General

We are a diversified investment holding company. We are engaged, through our direct and indirect, wholly and partially owned subsidiaries and affiliates, in the following core businesses: telecommunication equipment, defense electronics and agrochemicals as well as in other businesses. We are also engaged in investment in new technologies in the telecom and life science fields. For the years ended December 31, 2004 and 2003, international sales represented approximately 85.0% and 86.7%, respectively, of our consolidated net sales. A majority of our sales are derived from businesses in which we are the leading producer or provider of such goods and services in Israel. For the year ended December 31, 2004, we reported consolidated net sales of approximately NIS 9,229 million ($2.1 billion), consolidated operating profit of approximately NIS 1,243 million ($288 million) and consolidated net income of approximately NIS 145 million ($34 million).

Business Overview

Strategy

In October 1997, as a result of several transactions, the Claridge Group (comprised of Claridge Israel Ltd. and affiliated entities) became our largest shareholder. During January 1999, Claridge Israel Ltd. transferred its holdings to Claridge Israel L.L.C. which, during December 2003, transferred half of its holdings to Esarbee Investments Limited. As of June 30, 2005, Claridge Israel L.L.C. and Esarbee Investments Limited together held approximately 28.8% of our outstanding ordinary shares (14.7% held by Claridge Israel L.L.C. and 14.1% held by Esarbee Investments Limited). Beginning in July 1998, we initiated an extensive corporate

restructuring program, designed to transform Koor into a diversified investment holding company with controlling stakes in leading high-growth, export-oriented Israeli companies. Based on these criteria, we have made the strategic decision to focus on three businesses: telecommunication equipment, defense electronics and agrochemicals. Despite the downturn in the telecom industry, we still believe that our holdings in these businesses have the potential to grow internally, as well as through mergers and acquisitions.

We have implemented key elements of our strategy to date, including a substantial capital reallocation process, in which proceeds from the sale of low growth domestic businesses have been re-invested to increase our stakes in our core businesses. In this regard during the years 1999 through 2001 we divested ourselves of our non-core holdings, including our interests in Koor Insurance Agency, Koor Finance, Contahal, Merhav, the Switching Division of Tadiran Telecommunications, Tekem, Tadiran Information Systems, Koor Metals, Phoenicia, Yonah, Tadiran Com, Tadiran Telematics, Mashav, Merkavim Metal Works Ltd., Middle East Tube Co. Ltd. and the Q Group PLC. We also sold real estate assets of Koor Properties for approximately NIS 47 million in 2001 and real estate assets of Tadiran for approximately NIS 273 million in March 2002.

During 2004, we and our portfolio companies continued to take active measures to adapt to the changing business climate and to continue to implement our strategic plan. These measures include bringing in new strategic partners; identifying new market opportunities; focusing on core competencies, while divesting non-core assets; and streamlining group operations. During 2004, our portfolio companies took the following steps in implementing our strategic plan:

- MA Industries built on its strategy for generating growth through acquisitions and in-house development, while strengthening its presence mainly in the Australian and North American markets. In 2004, MA Industries acquired ownership and control in a group of three companies which are engaged in the registration, import and marketing of agrochemicals in the U.S. for a total purchase price of approximately NIS 303 million. Also in 2004, MA Industries acquired three marketing companies, two in the U.S. and one in Australia, for an aggregate purchase price of approximately NIS 186 million.
- ECI continued to implement its strategic plan, which included: focusing on its core optical networks, bandwidth management and broadband access businesses; exiting non-core activities; streamlining operations while improving the organizational structure; strengthening its financial position; and entering into strategic partnerships. As part of this plan, in May 2004, ECI distributed the majority of its shares in ECtel Ltd., or ECtel, to its shareholders, reducing its holdings of ECtel's shares from approximately 58.4% to approximately 16.0%. In November 2004, ECI signed an agreement with Redback Networks Inc., or Redback, for the delivery of enhanced triple play (voice, video and data) services over broadband and IP (Internet Protocol) networks. In December 2004, ECI entered into a strategic partnership with Chiaro Networks Ltd., or Chiaro, the developer of the Enstara™ IP/MPLS routing platform. This platform is designed to enable telecommunications service providers to consolidate multiple existing networks into a single, simpler network that offers greater operational efficiency, increased scalability and significant cost advantages.

- Telrad conducted major reorganization measures after our sale of 19.5% of our shares in the company to a strategic partner, Fortissimo GP Capital Fund L.P. The plan included reducing expenses through staff reduction and the merger of businesses.
- The Elisra Group countered challenging international defense markets and domestic budget cuts by initiating a comprehensive aggressive sales and marketing effort. Elisra expanded of its international customer base, and broadened its geographic sales mix.
- Koor CVC continued to work closely with its portfolio companies to seek out new markets and attract new investors. In 2004, Koor CVC received approximately $8.8 million in proceeds from the sale of its holdings in its portfolio companies Riverhead Networks and Envara.

Our Telecommunication Equipment Business

Our telecommunication equipment business is conducted primarily through ECI and Telrad.

Excluding sales of ECI, which are not consolidated in our results of operations, our telecommunication equipment business generated NIS 615 million ($143 million) and NIS 796 million ($185 million) of sales in 2004 and 2003, respectively, representing 6.7% and 10.4%, respectively, of our consolidated net sales for such years. Excluding sales of ECI, international sales accounted for 92.6% and 90.7% of our telecommunication equipment business' sales for 2004 and 2003, respectively.

Excluding sales of ECI, a large portion of the sales made by our telecommunication equipment business are made to one principal customer: Nortel. In 2004 and 2003, sales to Nortel represented 38% and 42%, respectively, of our telecommunication equipment business' sales.

The principal companies in our telecommunication equipment business are:

	Percentage Of Equity Ownership	Principal Products and Services
ECI Telecom Ltd.	30.2%	Telecommunication equipment and systems
Telrad Networks Ltd.	80.5%	Telecommunication equipment and systems

ECI Telecom Ltd. (ECI)

ECI is a provider of network and access solutions for digital communications networks. ECI designs, develops, manufactures, markets and supports digital telecommunications solutions for evolving new services and converging networks. ECI's products and platforms are designed to create and manage bandwidth, maximize revenues for network operators, reduce operating expenses, expand capacity, improve performance and enable new revenue-producing services. In doing so, they enhance the capabilities of existing networks to support voice, data, video,

multimedia services. ECI's equipment is marketed world-wide to over 300 wireline and wireless service providers.

ECI operates primarily through the following two divisions, although it has certain other operations and interests:

- The *Broadband Access Division* which develops, manufactures, markets and sells innovative access products that enable telecommunications service providers to mass deploy broadband networks and offer a variety of new advanced services. The division's primary product is the Hi-FOCuS, a Multi-Service Access Gateway solution based on a variety of transmission technologies and networking protocols. Facilitating the demand for bandwidth and advanced services, Hi-FOCuS supports interactive TV, or iTV, over digital subscriber lines, or DSL; games over DSL; video broadcast; video on demand and teleworking (including remote local area network, or LAN, access and video conferencing); small office/home office, or SOHO, applications; transmission of digital video over copper lines; and voice over DSL, among other residential subscriber applications. The Broadband Access Division's customers are principally incumbent local exchange carriers and large operators and include Deutsche Telekom AG and France Telecom.
- The *Optical Networks Division* which provides telecommunications service providers with metropolitan and regional intelligent and flexible multi-service optical transmission solutions. Its products enable end-to-end transport of voice and data circuits from the user's premises to high-capacity optical backbones, support the process of streamlining the use of optical networks and allow telecommunications service providers to offer additional services with greater efficiency. Its primary product is the XDM, a multi-service provisioning platform, or MSPP. The XDM integrates, within a single shelf, the functions of dense wavelength division multiplexing, or DWDM, a method of multiplexing signals by transmitting them at different wavelengths through the same optic fiber, intelligent optical networking multiplexer, broadband, narrowband, wideband and digital cross connects, IP, L2 switching and asynchronous transport mode, or ATM, switching as well as streaming support and synchronous digital hierarchy, or SDH, add-drop multiplexers. This all-in-one optical platform enables a significant savings in network deployment costs.

On June 6, 2005, ECI announced that it completed the acquisition of Laurel Networks Inc, a provider of Next-Generation IP/MPLS Multi-Service Edge Routers, which became ECI's *Data Networking Division*. ECI paid $88 million in cash for Laurel. Laurel has approximately 150 employees, and its sales for the twelve months ended April 30, 2005 totaled $18 million.

In addition, ECI operates in the areas of next generation telephony solutions and fraud prevention solutions via its minority interests in the following companies:

- *Veraz Networks Inc.*, or Veraz, a private company in which ECI holds a 43% interest. Veraz designs, markets and sells carrier-class packet telephony solutions. These solutions help telecommunications service providers in establishing the carrier-class new voice infrastructure necessary to provide toll quality, large scale, international and national, IP telephony services (including voice, fax and voice band data traffic). Its holding in Veraz enables ECI to maintain a foothold in an important strategic market, while at the same time

focusing internal resources on ECI's core businesses. In addition to its packet telephony products, Veraz also operates in the DCME market of bandwidth optimization solutions, with more than 11,000 traffic compression systems (DTXTM-600 and DTX-360) installed in 140 countries. DCME systems simultaneously compress toll quality voice, fax, voice band data, native data, and signaling. The system improves transmission media efficiency and helps achieve maximum bandwidth utilization and guaranteed QoS provision of traffic payloads. Veraz was formed in December 2002, by the combination of the principal activities of ECI's NGTS operations with those of NexVerse Networks, Inc.

- *ECtel Ltd. or ECtel,* is a developer and global provider of revenue assurance solutions for circuit-switched and packet-switched wireline and wireless networks. Its revenue assurance solutions equip telecommunications service providers with comprehensive data gathering and analysis capabilities to improve their operational efficiency and profitability by detecting and preventing fraud, monitoring the quality of service over their networks and supporting billing assurance/mediation functions or interconnection arrangements. ECtel experienced a sharp decline in revenues in 2003 and, in order to focus on its telecom business, in March 2004, it sold its government surveillance business to Verint Systems Inc. for $35.0 million in cash.

ECtel was previously a majority owned subsidiary of ECI; however, on May 10, 2004, ECI distributed 7.6 million of its shares in ECtel to its shareholders, including us, reducing its holdings in ECtel from approximately 57.9% to approximately 16.0%. As a result, ECI no longer consolidates ECtel's results and the activities of ECtel for prior periods are treated in ECI's financial statements as discontinued operations. In addition, as a result of this distribution, we acquired a direct ownership interest in ECtel of approximately 12.9%. Our investment in ECtel is presented in our consolidated financial statements by the cost method, and is classified as available-for-sale under FAS 115 for U.S. GAAP purposes, therefore ECtel's results are not included in our results of operations.

ECI's other operations include the remaining activities of the NGTS manufacturing unit, following the transfer of the principal NGTS operations to Veraz, which primarily focuses on the manufacturing of DCME systems for sale to Veraz, which has exclusive, world-wide distribution rights for these systems.

In December 2003, ECI entered into a strategic relationship agreement with Nortel Networks. Under the agreement, ECI and Nortel agreed to deliver broadband access networking solutions that will address the increasing global demand for multimedia and triple play services (voice, video and data).

In November 2004, ECI signed an agreement with Redback Networks Inc., or Redback, for the delivery of enhanced triple play (voice, video and data) services over broadband and IP networks. Under the agreement, the two companies will offer a comprehensive IP solution that includes ECI's Multi-Service Access Gateway (MSAG) solutions together with Redback's multi-service edge and broadband portfolio. Pursuant to the terms of the agreement, ECI and Redback will initially target joint customers and will work together to address customer needs and requirements for the move to triple play and other advanced services.

In December 2004, ECI entered into a strategic partnership with Chiaro Networks Ltd., or Chiaro, the developer of the Enstara™ IP/MPLS routing platform. This platform is designed to

enable telecommunications service providers to consolidate multiple existing networks into a single, simpler network that offers greater operational efficiency, increased scalability and significant cost advantages. According to ECI's agreements with Chiaro and its shareholders: (i) ECI received exclusive, global distribution rights for the Enstara platform for a period expiring in February 2008; (ii) ECI provided financing to Chiaro in the aggregate amount of $6.0 million, repayable in full in March 2008 with interest at an annual rate of LIBOR + 2.3% ($3 million of the financing being convertible, at ECI's option, at any time into convertible preferred shares of Chiaro); and (iii) ECI received an option to acquire Chiaro in the future at a price to be determined based on the revenues derived from the Enstara product. The term of the option expires in February 2008 and it may be exercised within three defined 90-day exercise windows during its term.

Under U.S. GAAP, for the year ended December 31, 2004, ECI reported revenues of $497 million, gross profit of $196 million, income from continuing operations of $14 million and net income of $10 million. Under Israeli GAAP, ECI's net loss for the year ended December 31, 2004 was $1 million. ECI is included in our financial statements on an equity basis only. As of December 31, 2004, our equity interest in ECI was approximately 30.21%.

For a discussion of material legal proceedings relating to ECI, please see "Item 8, Financial Information – Legal Proceedings."

Telrad Networks Ltd. (Telrad)

Telrad is an innovative developer and marketer of telecom products and end-to-end solutions. Telrad has over 50 years of experience in both legacy switching and next generation networking, and has a long-standing partnership with Nortel Networks. Telrad provides reliable networking solutions to many countries in Latin America, Africa, Eastern Europe and Asia Pacific.

Telrad's operations are divided into the following three divisions:

- Telrad ODM (original development manufacturer), which is similar to an OEM (original equipment manufacturer), is the division responsible for research and development as well as sales and support in wireline, wireless, enterprise and optical networks. The division develops carrier-grade quality products with a rapid time-to-market deployment. This division was created in 2004 through the consolidation of Telrad's former Telrad Network Solutions, or TNS, and Telrad Optical Networks, or TON, divisions.

- Public Network Integrator, or PNI, provides end-to-end solutions for telecom and service providers. PNI specializes in Telrad and Nortel Networks technology and its operations include the planning, design and development of switching products, project management integration and delivery of turnkey telecommunications projects, as well as third-party equipment.

- Advanced Operations Solutions, or AOS, provides advanced operations solutions and services, including NPI management, System House Services and complete Supply Chain Management, or SCM, for companies.

In addition, Telrad has interests in several start-up companies and new subsidiaries offering various products and services, which have been established as independent subsidiaries of Telrad. These companies offer next generation solutions in the telecommunications industry.

On September 28, 2004, we entered into an agreement to sell 39% of our holdings in Telrad to Fortissimo GP Capital Fund L.P., or Fortissimo, for $21 million. The agreement provided that the sale will be effected in two stages. In the first stage, which closed in November 2004, we transferred 19.5% of Telrad's shares to Fortissimo for consideration of $10.5 million. In the second stage, which we expected to close during the second half of 2005, Fortissimo was to transfer the balance of the consideration, amounting to $10.5 million, and we were to transfer the balance of the Telrad shares we sold in this transaction, amounting to 19.5% of Telrad's shares. See also "Recent developments" below.

Under the terms of the agreement, Fortissimo was given an option, exercisable for a period of up to 48 months from the closing date of the first stage, to acquire additional shares of Telrad from us, provided that Fortissimo's total holdings will not exceed 49% of Telrad's shares. The exercise price for this option will be determined according to the value of Telrad, which will not be less than its shareholders' equity in the financial statements on the exercise date.

Pursuant to the agreement, we agreed to use the proceeds of the sale to extend loans to Telrad, and upon the closing of the first stage of the sale, we transferred $9.5 million of the proceeds to Telrad as a loan. Upon the closing of the second stage, we will extend an additional $11.5 million loan to Telrad. These loans will bear interest at an annual rate of LIBOR+2%, and will mature 20 years from the closing date of the first stage.

As of December 31, 2004, based on estimates by our management, forecasts on the operating results of Telrad and the indemnification we provided Fortissimo in the transaction, our management assessed that the value of the $9.5 million loan to Telrad loan was impaired and a provision was recorded in our consolidated financial statements.

Under the terms of the agreement, we and Fortissimo agreed to vote our respective shares of Telrad so that following the completion of the second stage, Telrad's board of directors will consist of seven directors and will be comprised of three directors nominated by us, three directors nominated by Fortissimo and one director jointly nominated by us and Fortissimo. In addition, the agreement stipulates a list of matters which must be approved by our and Fortissimo's joint consent, including the approval of Telrad's budget, the appointment of Telrad's executives and the determination of their terms of employment and the distribution of dividends. These rights confer on Fortissimo, as the minority shareholder, the right to actually participate in significant decisions related to the Telrad's normal course of business, and, therefore, prevent us, as the majority shareholder, from exercising actual control over Telrad and require our and Fortissimo's joint consent in decisions on matters that are critical for the operating objectives of Telrad.

Under the terms of the agreement, in the event Fortissimo does not transfer the entire balance of the consideration in the second stage, it will receive shares of Telrad on a basis proportionate to the consideration actually paid. In such event, the agreement provides for a

formula for appropriate changes to be made to the composition of Telrad's board of directors, the voting rights granted to Fortissimo, the loan amounts we extend to Telrad and the terms of Fortissimo's option to purchase additional shares, as described above.

As a result of this transaction, since the closing of the first stage in November 2004, Telrad has been included in our financial statements, according to Israeli GAAP and according to U.S. GAAP, by the proportionate consolidation method, at a rate of 80.5%.

Recent developments

On June 22, 2005 we completed the second stage of the sale of shares of Telrad, amounting to 19.5% of Telrad's shares, thereby completing the sale of 39% of Telrad's shares. As a result of the accelerated reorganization measures implemented at Telrad (as described below under "Cost Reduction Plan"), we and Fortissimo entered into an amendment to the original agreement, pursuant to which the terms of the second stage of the transaction were changed. International private equity fund HarbourVest International Private Equity Partners and Israeli based Poalim Ventures joined Fortissimo Capital in this investment. Under the amended terms of the transaction, we received $6.25 million for the 19.5% of Telrad's shares transferred in the second stage, instead of the $10.5 million provided for in the original agreement. However, instead of extending a loan to Telrad with the proceeds from the sale in the second stage as provided in the original agreement, under the amended terms of the transaction, we retained these proceeds. Under the amended terms of the transaction, we were also relieved from certain of our indemnification obligations to Fortissimo under the original agreement. As a result of this transaction, as of the closing of the second stage in June 2005, Telrad will be included in our financial statements, according to Israeli GAAP and according to U.S. GAAP, by the equity method.

Reorganization plans

Beginning in November 1998, Telrad's board of directors approved a series of reorganization plans which included the reduction in the number of employees through early retirement plans. The reorganization plans were completed without disturbances to labor relations. In 2004, Telrad's board of directors approved an additional reorganization plan that included the reduction of approximately 85 additional employees. For 2004, 2003 and 2002, our financial statements include expenses of NIS 29 million, NIS 2 million and NIS 107 million, respectively, recorded under the item "Other income (expenses), net". The 2004 reorganization plan was completed in 2005, with an expense of NIS 40 million included in our financial statements for the first quarter of 2005. As a result of these reorganizations, Telrad has reduced its workforce to be in line with its current sales volume and requirements.

Start-ups and new subsidiaries

comMATCH Ltd., a wholly-owned subsidiary of Telrad, is a leading provider of Last-Mile over IP solutions for telecommunications operators, creator of DUET Carrier Grade VoIP (Voice over Internet Protocol, Gateways portfolio. comMATCH is a spin-off of Telrad Networks. The company's mission is to deliver carrier class VoIP and Media over IP solutions

enabling Multi-Service Operators and alternative carriers to deliver reliable, high-quality and feature-rich telephony services over IP and TDM networks.

The DUET family of products enables customers to seamlessly bridge Legacy Public Switched Telephone Network, or PSTN, and IP networks via various alternative infrastructures, like Cable TV, xDSL, fixed broadband wireless, Gigabit Passive Optical Networks (GPON) and more. The company's technology provides connectivity and interoperability for Next Generation Access and Public Networks. comMATCH's sales in 2004 and 2003 totaled $3.9 million and $1.8 million, respectively.

Telrad Connegy Communications Inc. (Connegy). Telrad holds 52% of its U.S. based subsidiary, Connegy, whose main products consist of the UNITe Family of Business Systems and IP and LAN telephony solutions, including the advanced i.Picasso 6000 IP telephone and the CNS 3200 Enhanced Hosted Communications Platform. Connegy provides enterprise customers, carriers and others with a comprehensive family of digital and VoIP telecommunication solutions and applications. In 2004 and 2003, Connegy's net sales were $21.9 million $21.0 million, respectively.

Relationship with Nortel

On April 23, 2002, Nortel and Telrad signed license and distribution agreements, allowing Telrad to sell products based on Nortel know-how and technology to a defined list of carriers in countries in which Nortel does not intend to conduct business and/or in which its activities are limited. During 2003, a number of distribution and license agreements were signed by the parties covering three of the major areas of operation of Nortel. In February 2005, Telrad and Nortel entered into a master reseller agreement, which unified the parties' obligations under their previous distribution and license agreements.

Credit Risk Exposure

As part of the above mentioned agreements with Nortel, Telrad retained the receivables from the related sales that typically include extended credit terms to customers in countries that involve certain risks in light of their political and economic conditions. These countries include Ethiopia, Myanmar, Honduras, Chile, Bolivia and Georgia.

As of December 31, 2004 and 2003, Telrad's long-term credit risk exposure from these agreements amounted to NIS 22 million and NIS 27 million, respectively. During the first quarter of 2005, Telrad further reduced its long-term credit risk exposure by collecting an additional NIS 3 million in receivables.

Cost Reduction Plan

After completing the first stage of the sale of 39% of the shares of Telrad to Fortissimo, in addition to the reorganization plans and retirement plans discussed above, Telrad implemented cost reduction measures, including the consolidation of Telrad's former TNS and TON divisions into the ODM division.

Other Telecommunication Equipment Business

In addition to ECI and Telrad, a small portion of our telecommunication equipment business is conducted by Microwave Networks Inc., or MNI, in the United States. For the years ended December 31, 2004 and 2003, MNI had sales of approximately NIS 145 million ($ 33.6 million) and NIS 126 million ($29.2 million), respectively.

As described above, we also have direct ownership of approximately 12.9% in ECtel, following the distribution by ECI, on May 10, 2004, of 7.6 million of its shares in ECtel to its shareholders, including us.

Our Defense Electronics Business

Our defense electronics business is conducted through the Elisra Defense Group, or Elisra Group, and Tadiran Communications Ltd., or Tadiran Communications.

The Elisra Group includes Elisra Electronic Systems Ltd., or Elisra, Tadiran Electronic Systems Ltd., or Tadiran Electronic, and Tadiran Spectralink Ltd., or Tadiran Spectralink. The Elisra Group designs, develops, manufactures, integrates and supports advanced system solutions for air, sea and land deployment in over 25 countries.

Excluding sales of Tadiran Communications, which are not consolidated in our results of operations, for the years ended December 31, 2004 and 2003, our defense electronics business had sales of NIS 1,166 million ($271 million) and NIS 1,286 million ($299 million), respectively, representing 12.6% and 16.7%, respectively, of our consolidated net sales during these periods. In 2004 and 2003, the majority of sales of our defense electronic business were made to defense-related customers.

In 2004, the Elisra Group's sales to the Israeli Ministry of Defense, or IMDF represented approximately 31% of the Elisra Group's sales.

The principal companies in our defense electronics business are:

	Percentage Of Equity Ownership	Principal Products and Services
Elisra Electronic Systems Ltd.	70.0	Holding Company; Electronic warfare, equipment and systems
Tadiran Electronic Systems Ltd.	100.0(1)	Command, control, communications and intelligence systems for defense applications
Tadiran Spectralink Ltd.	100.0(1)	Advanced data and video links for military use
Tadiran Communications Ltd.	30.8 (2)	Communications devices and systems mainly for military use

(1) Indicates the percentage of direct ownership by Elisra Electronic Systems Ltd.

(2) Fully diluted, taking into consideration the exercise of outstanding stock options. As a result of our sale of shares in April 2005 our interest in Tadiran Communications decreased to 18.6%. See "Recent Developments" below.

Elisra Group

The Elisra Defense Group, managed and controlled by Elisra, principally is involved in the design, manufacture, distribution and support of a wide range of advanced electronic systems, primarily for the modern military. The Elisra Group's companies are ranked among the most sophisticated defense suppliers of Electronic Warfare systems, or EW, Command, Control, Communication and Computing Intelligence systems, or C^4I, and training simulators. The Elisra Group's companies are suppliers to the Israel Defense Forces and are deployed by modern armed forces around the world. The Elisra Group's companies focus on the development of new and innovative technologies for a large range of platforms with a professional staff of experienced engineers, software programmers and highly skilled technicians.

As of December 31, 2004, our defense electronics business had an aggregate backlog of confirmed orders of NIS 2.0 billion ($462 million) compared to NIS 2.2 billion ($513 million) as of December 31, 2003.

Elisra Electronic Systems Ltd. (Elisra)

Elisra designs, develops and produces electronic warfare and surveillance systems for military purposes, as well as a range of electronic and microwave components for the commercial market. Elisra offers a diversified range of combat-proven electronic warfare systems, or EW, including radar warning systems, active countermeasure systems, comprehensive self-protection systems, electronic intelligence systems, or ELINT, and sophisticated communication links, complemented by extremely light-weight components. Elisra also develops a wide range of active and passive microwave components. Microwave and Radio Frequency, or RF, components are essential to nearly all intricate electronic equipment, as well as microwave telecommunication and satellite systems.

In July 2002, we entered into an agreement with Elta Systems Ltd. or Elta, a wholly-owned subsidiary of Israel Aircraft Industries, to sell to Elta 30% of Elisra's shares for $100 million. In addition, we entered into a shareholders' agreement with Elta to govern the relationship between us and Elta as the shareholders of Elisra, including voting on the composition of Elisra's board of directors and its decision making process, and the imposition of certain limitations on the sale of Elisra's shares.

Tadiran Electronic Systems Ltd. (Tadiran Electronic)

Tadiran Electronic is engaged in providing solutions for a variety of customers in the field of C^4I, electronic warfare COMINT systems and spectrum management and control systems.

An array of electronic hardware and computer software is incorporated into the C^4I systems, which enable the collection, processing, analysis and display of large quantities of information to facilitate effective dissemination and accelerate decision making for better Battle Management capabilities.

Tadiran Electronic has developed a simulator for a Tactical Ballistic Missile, or TBM, Defense Battle Management Center for the U.S. Ballistic Missile Defense Organization, or BMDO, and the Israeli Ministry of Defense. The simulator is currently operating and providing information for both organizations.

Tadiran Electronic is also a supplier of the Battle Management Center of the Israeli Arrow Defense weapons system.

Tadiran Electronics' activities in the field of electronic warfare systems involve the design, development and distribution of a broad range of strategic and tactical electronic warfare systems for ground, naval and airborne platforms. Passive electronic warfare systems analyze and display incoming signals and weapons information, while active electronic warfare systems render hostile communication ineffective through electronic countermeasure techniques.

Based on electronic warfare technology, a new range of commercial applications has evolved in the area of spectrum management control. Integrated spectrum management and monitoring systems provide nationwide solutions to various telecommunication administrations.

Tadiran Spectralink Ltd. (Tadiran Spectralink)

Tadiran Spectralink develops and manufactures data and video links for a variety of applications, including unmanned aerial vehicles, guided weapons and satellite systems for locating and rescuing downed pilots. Based on these links, command and control systems for airborne and naval applications are developed.

In March 2001, a fire broke out at the plants of Tadiran Electronic and Tadiran Spectralink, both of which are now wholly-owned by Elisra. The management of these two companies estimate on the basis of, among other things, the opinion of their legal advisers in this matter, that the indemnity from the insurance companies would not be less than the book value of the damaged property of approximately $36 million. During 2003, these two companies filed a claim of $96 million to receive insurance payments for the equipment, building, inventory and projects in progress damaged as a result of the fire. As of December 31, 2003, we had received advances from the insurance companies amounting to approximately $10 million. During the second quarter of 2004, Tadiran Electronic and Tadiran Spectralink filed a motion with the district court in Tel Aviv to issue a partial ruling of $33 million (in addition to the $10 million in advances already paid by the insurance company), based on the admission by the insurance company and its representatives of their liability deriving from the insurance event, while the dispute focuses on the level of damages. In December 2004, pursuant to a ruling of the district court in Tel Aviv, the parties consented to the opening of a separate bank account, in which the insurance company would deposit $15 million. Any withdrawal from this account would require the court's approval until the conclusion of the proceedings in the lawsuit. The lawsuit was sent to arbitration and the court proceedings will be postponed until the end of the arbitration.

Tadiran Communications Ltd. (Tadiran Communications)

On September 10, 2004 we signed an agreement to acquire approximately 33% of the shares of Tadiran Communications (approximately 31% on a fully diluted basis taking into consideration the exercise of outstanding stock options) from Trefoil Israel Partners II, L.P., First Israel Mezzanine Fund L.P. and First Israel Mezzanine Fund (in Israel) Limited Partnership for approximately NIS 637 million (approximately $144 million). Our acquisition of these shares, which closed in November 2004, was financed through a loan from an Israeli bank secured by these shares.

Tadiran Communications develops, manufactures and markets communication devices and systems mainly for military purposes in over 50 countries world-wide. It provides a comprehensive range of integrated communication solutions, offering one of the widest ranges of military communication equipment on the market, including HF and VHF radios, telecommunication systems, and military computers which also serve as communication and navigation terminals. These product lines feature highly immune, secure digital radio communication systems for voice and data.

Tadiran Communications' products are in the fields of RF design and development in frequencies ranging from 1.5 MHz - 5 GHz, Spread Spectrum techniques (e.g. frequency hopping and direct sequence), crypto algorithms, wireless data transfer application modems, error detection and correction adapted to radio channels, advanced synchronization techniques, communications protocols and radio channel control.

Tadiran Communications is the Israel Defense Force's signal corps' main supplier of communications equipment. Furthermore, Tadiran Communications utilizes its expertise for civilian applications, which consist of Bluetooth networks developed by its subsidiary TADLYS and Commercial HF radios designed by its MOBAT division.

Headquartered in Israel, Tadiran Communications has two foreign subsidiaries: Talla-Com Tallahassee Communications Industries Inc. ("Talla-Com") and Telefunken Radio Communication Systems Co. KG ("Telefunken"). Talla-Com and its subsidiary, Tallahassee Technologies Inc., are both fully owned. Based in Tallahassee, Fla., they serve as Tadiran Communications' U.S. production and marketing vehicle, and a vehicle for increased participation in Foreign Military Support ("FMS") projects. Telefunken is 75% owned by Tadiran Communications. Based in Germany, Telefunken supplies technology and HF radio products to the German army. Tadiran Communications is publicly traded on the Tel Aviv stock Exchange under the symbol TDCM.

Recent Developments

On December 27, 2004, we entered into a series of agreements with Elbit Systems Ltd., or Elbit, and with Federmann Enterprises Ltd., or Federmann. Under the terms of an agreement with Elbit, we agreed to sell our entire holdings in Tadiran Communications (approximately 33%) to Elbit for approximately $146 million. Concurrently, pursuant to an agreement with Federmann, we agreed to acquire approximately 9.8% of Elbit's share capital from Federmann

for approximately $99 million and we will have the right to appoint 20% of Elbit's directors, one of whom will serve as Vice Chairman of the Board.

The two sales, which are interconnected and will be completed in two stages, are subject to several conditions, including approval of the applicable anti-trust regulators and approval of Elbit's shareholders.

In the first stage, we will sell approximately 13.8% of the outstanding share capital of Tadiran Communications to Elbit for approximately $63 million, and concurrently, we will acquire approximately 5.3% of the outstanding share capital of Elbit from Federmann for approximately $53 million. In the second stage, we will sell the balance of our holdings in Tadiran Communications (approximately 19.2%) to Elbit for approximately $83 million and concurrently, we will acquire approximately 4.5% of the outstanding share capital of Elbit from Federmann for approximately $46 million. The second stage is contingent, among other things, on the closing of a transaction in which Tadiran Communications will acquire from us our entire holdings (approximately 70%) in Elisra. It was further agreed by the parties that if the second stage of the sales is not closed within sixteen months of the signature date of the agreements, then the board of directors of Tadiran Communications will be comprised in a manner whereby we and Elbit will have "joint control" of Tadiran Communications, meaning that we and Elbit will have an equal number of directors, and there will be rotation of two-year terms for the chairman of the board.

On April 18, 2005, following receipt of the requisite approvals, the first stage of the transaction was closed. Following the closing of the first stage, we held approximately 18.6% of the outstanding share capital of Tadiran Communications and approximately 5.3% of the outstanding share capital of Elbit, and we and Elbit have an identical number of directors on the board of Tadiran Communications. The closing date for the second stage was scheduled for September 30, 2005. If all the other contingent conditions are fulfilled, but the Elisra transaction has not been closed, the date will be postponed to April 30, 2006 or to another date agreed upon by the parties.

On July 6, 2005 we signed an amendment to these agreements, pursuant to which we will sell our entire holdings in Elisra to Elbit, instead of to Tadiran Communications as per the original agreements, for approximately $70 million and additional consideration following receipt of future insurance proceeds. We also received the right to acquire Dekolink Ltd., a start-up company in the cellular field that is wholly-owned by Elisra. As originally agreed, we will sell the balance of our holdings in Tadiran Communications to Elbit for $83 million. However, under the amended terms of the transactions, contrary to the terms of the original agreement, this sale will be conducted in two parts, and we and Elbit will share joint control of Tadiran Communications, as described above, following the sale of the first 5%. The sale of our remaining shares in Tadiran Communications is contingent on the execution of our sale of our holdings in Elisra to Elbit. Elbit's acquisition of Elisra is subject to the approvals of Elbit's shareholders at general meeting to be held within sixty days and Israel's Anti-Trust Commissioner. In addition, under the amended terms of the transactions, contrary to the terms of the original agreement, we will acquire only an additional 2.3% of Elbit from Federmann for $25 million, regardless of whether the sale of Elisra is approved by the Israeli Anti-Trust

Commissioner. Upon completion of all the stages of these transactions, we will hold approximately 7.6% of Elbit.

Our Agrochemicals Business

Our agrochemicals business is conducted through the direct and indirect subsidiaries of Makhteshim-Agan Industries Ltd., or MA Industries. MA Industries is the world's leading generic manufacturer of crop protection products. After a long period of coordination and cooperation as separate publicly-traded entities, Makhteshim and Agan formally merged in May 1998. The new MA Industries replaced its predecessors on the Tel Aviv Stock Exchange and now has several wholly-owned subsidiaries which include Makhteshim Chemical Works Ltd., or Makhteshim, Agan Chemical Manufacturers Ltd., or Agan, and Milenia Agro Ciensias S.A., or Milenia, all of which are collectively referred to as "the MA Group." These companies are leading international suppliers of generic crop protection products. The MA Group produces a full range of crop protection chemicals, including acaricides, insecticides, fungicides, herbicides as well as plant growth regulators. The company is also engaged in the development, production and marketing of fine chemicals, intermediates, specialty aroma chemicals, industrial chemicals, antioxidants and nutraceuticals. For the years ended December 31, 2004 and 2003, our agrochemicals business had sales of NIS 6,895 million ($1,601 million) and NIS 5,192 million ($1,205 million), respectively, representing 74.7% and 67.5%, respectively, of our consolidated net sales during such periods. International activities, primarily sales in Europe, North America and Latin America, accounted for 93.3% and 92.6% of our agrochemicals business' sales in 2004 and 2003, respectively.

The principal companies in our agrochemicals business are:

	Percentage Of Equity Ownership	**Principal Products and Services**
Makhteshim-Agan Industries Ltd.	38.6(1)(2)	Holding Company
Makhteshim Chemical Works Ltd.	100.0 (3)	Insecticides and fungicides and other chemicals
Agan Chemical Manufacturers Ltd.	100.0 (3)	Herbicides and synthetic aroma chemicals
Milenia Agro Ciensias S.A.	100.0 (3)	Formulation and distribution of crop protection chemicals

(1) The ordinary shares of MA Industries are traded on the Tel Aviv Stock Exchange, or TASE.
(2) As a result of our sale of 15.9 million shares of MA Industries on February 3, 2005 and the issuance of additional shares by MA Industries in the second quarter of 2005 upon the conversion of convertible debentures and the exercise of stock options including employee stock options, our interest in MA Industries decreased to approximately 32.0% as of June 30, 2005 (approximately 28.6% on a fully diluted basis taking into consideration the exercise of outstanding stock options and the conversion of outstanding convertible debentures).
(3) Indicates the percentage of direct ownership by MA Industries.

MA Industries results were included in our consolidated financial statements according to Israeli GAAP as of and for the year ended December 31, 2004 despite the decrease in our

ownership to below 50% since, in our management's opinion, we continued to exercise effective control over MA Industries as of December 31, 2004, as described below. However, under U.S. GAAP, MA Industries' financial statements are not included in our consolidated financial statements as of and for the year ended December 31, 2004, but rather are recognized according to the equity method. See also Note 28 to our consolidated financial statements included elsewhere in this annual report.

The Agrochemicals Business Environment in 2004

After several years in which the agrochemicals market underwent significant structural changes, recovery in the past two years has been indicated by increased demand for plant protection chemicals and improved business results of most companies. In 2004, growth has continued in the agrochemical market, and the market has reached $30.7 billion (an increase of 15% over 2003).The principal factors affecting the market in 2004 were high demand, excellent harvests in the USA, good weather conditions in northern Europe, improving economic conditions in South America (mainly Brazil), and an outbreak of soybean rust in South America. Other contributing factors were the weak US dollar and low levels of stocks at the beginning of the year. Even after eliminating the effects of currency fluctuations and inflation, all regions showed growth in real terms except for North America, where the market remained stable.

The agrochemicals market has become more concentrated since the recent years' trend of mergers of the multinational companies. At present, six large companies hold approximately 85% of the conventional agrochemicals market. This process of consolidation has led to large gaps between the two leading companies – Syngenta and Bayer – and the rest of the companies. In the short-to-medium term, the process has stabilized the market by reducing the number of competitors and has tempered the falling prices.

Crop Protection

Generic agrochemicals offer an alternative source for widely utilized chemicals previously manufactured under patents by larger research-based chemical manufacturers. Research-based chemical manufacturers often focus their resources on developing new agrochemicals and supply of additional chemicals by generic manufacturers, such as MA Industries, to supplement their capacity. In the next few years, as a result of decreased resources committed to research and development of new agrochemicals products and the expiration of existing patents, a significant number of widely used agrochemicals are expected to lose patent protection in many geographic regions (primarily South America), substantially increasing the available market for sales by generic manufacturers. The off patent component of the agrochemical industry grew in recent years to approximately 67% as of December 31, 2003 and is expected to exceed 70% of the agrochemical market by 2007. In addition, the modernization of the agricultural industries of Eastern Europe and other developing countries offers increasing sales opportunities for both research-based and generic agrochemical manufacturers.

The major competitors in the international market for agrochemicals are major international research-based chemical producers. These major international chemical producers have significant influence on the prices of most of MA Industries' products. In the Israeli

market, MA Industries competes with importers with respect to most of its products, and competes with both importers and Israeli producers with respect to non-pesticide products.

The development of new generic products requires significant investment for research, registration, establishment of production and marketing facilities. The MA Group typically focuses on products that require a high degree of sophistication in process development and production, and are, therefore, less susceptible to extensive competition. Their prices, therefore, tend to be relatively higher than sectors where competition is more prevalent. For many of these products, the MA Group is the world's second largest manufacturer, with the original research-based chemical company maintaining the majority share. We believe that the MA Group's ability to compete with major international research-based chemical companies and other generic chemical manufacturers is based upon their flexible manufacturing facilities, advanced research and development capabilities, fulfillment of stringent registration and licensing requirements of various countries, compliance with environmental regulations, material purity and worldwide marketing and cooperation with certain multinational companies with respect to the production and marketing of numerous products. An essential component of the MA Group's ability to maintain its market share on the worldwide market is the successful introduction of new generic products immediately after the expiration of the patents validity. In 1998, an amendment was passed to Israeli Patents Law 1967, which has certain beneficial ramifications for the Israeli agrochemical industry. Under this amendment, (i) subject to certain conditions, research activities on a patent during the patent period for the purposes of production deployment after the patent expiration will not constitute misuse of an invention, and (ii) the period of patents in the agrochemical industry cannot be extended. These changes should facilitate the introduction of new products by the MA Group.

The MA Group plans to develop, over the next several years additional agrochemical products, including fungicides, insecticides and herbicides, based primarily on a substantial number of patents held by other parties expiring within the next few years. The MA Group purchased the right to manufacture and market several agrochemical products from the developers of such products.

New research and developments in the field of trans-genetic plant species that can tolerate insects and in plant species that are resistant to fungal diseases may have an adverse impact on the demand for the MA Group products during the next few years, depending upon the success of such developments.

The MA Group markets its crop protection chemicals primarily to national distributors and foreign manufacturers, who use such chemicals in the formulation of a wide range of products and sell the formulations to distributors and end users. The MA Group manufactures over 70 different active ingredients, which are sold as technical grade materials and "ready" formulations. These technical grade materials are used in the formulation of a wide range of herbicides, insecticides, fungicides and plant growth regulators. The "ready" formulations are sold to distributors. Agan sells its synthetic aroma chemicals principally to the detergent, soap and cosmetics industries. No single product manufactured and sold by the MA Group accounted for more than 10% of MA Industries' total sales in 2004 and 2003.

Foreign Activities

As part of our strategy to focus on our core businesses and increase market penetration in the agrochemicals industry, we have continued to expand our agrochemicals business abroad.

In October 2001, MA Industries and several of its subsidiaries entered into a securitization transaction, pursuant to which the subsidiaries agreed to sell all their accounts receivable to several foreign companies which were established for this purpose, but which are not owned or controlled by MA Industries or its subsidiaries. The acquisition of the accounts receivable by these companies was financed by a United States affiliate of the Bank of America Group. On September 28, 2004, MA Industries and certain subsidiaries signed an agreement with Bank of America to terminate the securitization undertaking. On that same date, they entered into a new agreement with Rabobank International for the sale of trade receivables in a securitization transaction to replace the previous agreement with Bank of America. The new agreement is similar in principle to the prior agreement with several changes, including, among others, that in the new agreement additional MA Indusries subsidiaries are included in the transaction. The volume expected to be at the disposal of the companies purchasing the accounts receivable is approximately $250 million (compared with $150 million in the previous securitization agreement), on a current basis, so that the considerations received from the customers whose debts were sold will be used to purchase new debts. Under the terms of the securitization agreements, MA Industries will handle collection of the sold debts for these companies in consideration of a fee, which is to be determined in accordance with such agreements. The period in which the companies will sell their trade receivables will be one year from the closing date of the transaction. This period may be extended, with the consent of all the parties, for additional one-year periods, up to a maximum of four extensions. Under the terms of the agreement, MA Industries undertook to meet certain financial covenants, mainly a ratio of liabilities to capital and profitability ratios, and as of December 31, 2004 and June 30, 2005, MA Industries is in compliance with these covenants. As of December 31, 2004, MA Industries received cash proceeds of approximately $142.5 million from this securitization transaction.

In April 2004, MA Industries, through a wholly-owned subsidiary, signed agreements to acquire ownership and control in a group of three companies, Vegetation Management LLC, Farm Saver.com LLC and Nation Ag II LLC, which are engaged in the registration, import and marketing of agrochemicals in the U.S. The total purchase price amounted to approximately NIS 303 million.

In June 2004, MA Industries, through a wholly owned subsidiary, signed an agreement for acquisition of approximately 45% of the rights in Control Solutions Inc., or CSI, a U.S. company engaged in the marketing of pesticides to the non-agricultural market in the United States. In addition, the subsidiary was granted an option, which may be exercised at any time during the next three years, to increase its share in CSI to 60%, in exchange for a payment ranging between NIS 6.8 million and NIS 47.8 million, based on CSI's earnings in 2004–2006. In addition, commencing in 2009, the subsidiary and the remaining shareholders of CSI have the right to require the subsidiary to acquire from the remaining shareholders of CSI the balance of their shares in CSI in consideration for an amount to be determined based on the earnings of CSI for the three years preceding the acquisition date.

In July 2004, MA Industries, through a wholly owned subsidiary, signed an agreement for acquisition of all the shares and rights of Farmoz PTY Limited, an Australian company engaged in the marketing and distribution of pesticides in Australia.

In August 2004, MA Industries, through a subsidiary, signed an agreement for acquisition of 50.1% of the rights in RiceCo LLC, a U.S. company engaged in the development and marketing of herbicides for rice.

The total purchase price paid for CSI, Farmoz and RiceCo amounted to approximately NIS 186 million.

In March 2004, MA Industries issued non-marketable convertible debentures in a private placement to institutional investors in the amount of $150 million par value, in consideration for their par value. The debentures are for a seven-year period and bear annual interest at the rate of 1.75%, to be paid annually, in the month of March. The debentures may be converted into ordinary shares of MA Industries, par value NIS 1.00 per share, at a conversion rate of NIS 20.5 per share, according to a fixed exchange rate of NIS 4.514 per $1.00. The ordinary shares to be issued upon conversion of the debentures will be listed for trading on the Tel Aviv Stock Exchange. On March 22, 2007, the debenture holders will have the right, by serving prior written notice to MA Industries (between 30 and 60 days prior to March 22, 2007), to demand redemption of the debentures (principal and interest balance at such date). MA Industries will have the right to force the conversion of the debentures, beginning March 22, 2007, as long as the average trading price of MA Industries' ordinary shares in the period of 20 business days preceding the notice of forced conversion, will be more than 30% higher than the conversion price of the debentures. As of June 30, 2005, $121.5 million of the $150 million debentures were converted into approximately 27.8 million shares.

On January 14, 2004, we sold 27 million shares of MA Industries to UBS Securities Israel Ltd. for approximately NIS 418 million. The sale generated a capital gain, before tax, of NIS 160 million in the first quarter of 2004, and our percentage ownership in MA Industries decreased to 41.29%. Additionally, as a result of the sale, we utilized a deferred tax asset of NIS 59 million that had been created in 2003, because of expectations to utilize carryforward tax losses.

As a result of this transaction, and following the issuance by MA Industries of additional shares upon the conversion of convertible securities issued by MA Industries, including the convertible debentures mentioned above, our ownership percentage in MA Industries decreased to 38.6% as of December 31, 2004.

In the opinion of our management, the broad dispersal of voting rights among the other shareholders of MA Industries, the low level of shareholding by the other shareholders of MA Industries, the low likelihood of the creation of a block of votes opposing our interests at shareholder meetings and past experience related to the attendance at shareholder meetings, as well as the voting percentages and opposition at the meetings indicate that the economic substance that stood and continues to stand as the basis of the relationship between us and MA Industries immediately before and after the transactions described above demonstrates our effective control of MA Industries, as measured by our ability to determine the financial and

operational policies of MA Industries. Therefore, MA Industries' financial statements continue to be included in our consolidated financial statements for the year ended December 31, 2004. However, under U.S. GAAP, MA Industries' financial statements are not included in our consolidated financial statements in 2004, but rather are recognized according to the equity method. See also Note 28 to our consolidated financial statements included elsewhere in this annual report.

Recent Developments

On February 3, 2005, we sold 15.9 million shares of MA Industries to Merrill Lynch International for approximately NIS 374 million. The sale generated a capital gain, before tax, of approximately NIS 201 million in the first quarter of 2005. Additionally, as a result of the sale, we utilized a deferred tax asset of approximately NIS 69 million that had been created in 2004, because of expectations to utilize carryforward tax losses. Under the terms of the sale, we undertook not to sell additional shares of MA Industries for a nine-month period from the date of sale. As a result of this sale, and following the issuance by MA Industries of additional shares in the second quarter of 2005 upon the conversion of convertible securities and the exercise of employee stock options, our ownership percentage in MA Industries decreased to 32% as of June 30, 2005 (28.6% on a fully diluted basis taking into consideration the exercise of outstanding stock options and the conversion of outstanding convertible debentures).

Following the sale of the shares in February 2005, we evaluated the implication for continuing to consolidated MA Industries in our financial statements, beginning from the first quarter of 2005. Based on an evaluation of the range of circumstances created as a result of the February 2005 sale, we decided that continuation of the consolidation of MA Industries is not consistent with the economic substance. Therefore, beginning from the first quarter of 2005, the consolidation of MA Industries in our financial statements was discontinued, and our investment in MA Industries is accounted for according to the equity method.

On March 8, 2005, the board of directors of MA Industries resolved to adopt a new option plan for its officers and employees and those of its subsidiaries. Under the terms of the plan, on March 14, 2005, MA Industries issued stock options exercisable for up to 14,900,000 ordinary shares of MA Industries. Assuming all the options are exercised, the plan recipients will hold approximately 3.05% of MA Industries share capital, including 2,500,000 options that were deposited with a trustee for future distribution. However, the offerees will not be issued the full number of shares underlying the options, but only the number of shares reflecting the monetary benefit implicit in the options.

Our Venture Capital Business

In January 2000, we and a wholly-owned subsidiary established a registered partnership called "Koor Corporate Venture Capital," or Koor CVC, within which we concentrated our investment activities in venture capital funds and in high-tech start up companies with growth potential. The action was taken to implement our strategic decision to increase our investments in those areas. Within this context, since January 2000, Koor CVC signed investment agreements with various start-up companies.

In 2000, Koor CVC, as a limited partner, also committed to invest up to a total of $73 million in a number of external venture capital funds. As a result of the reduction in the size of one of the funds, this commitment declined to approximately $68 million in 2002.

In March 2001, Koor's board of directors elected to limit Koor CVC's future investments only to its current portfolio companies and not to seek new investments from that point onwards.

In June 2003, Koor CVC sold most of its commitment to its portfolio of external venture capital funds to a secondary venture capital fund. As a result of this sale, Koor CVC's future commitment to invest in these venture capital funds was reduced to $14 million.

As of December 31, 2004, Koor CVC's future commitment to invest in its venture capital fund (Pitango) totaled approximately $5 million. This amount may be drawn upon by the fund at any time over the next 1-3 years, based upon their needs.

During 2004, Koor CVC recorded NIS 58 million of provisions. These provisions were as a result of depreciation in value for some of the Koor CVC portfolio companies and portfolio funds.

During 2004, Koor CVC transferred approximately $9.1 million in follow-on investments in its portfolio start-up companies and its portfolio venture capital funds, and received approximately $8.8 million in proceeds from the sale of its holdings in its portfolio companies, Riverhead Networks and Envara.

As of December 31, 2004, the book value of Koor CVC's investments in its start-up companies, a venture capital fund and Scopus Network Technologies, or Scopus, in which Koor CVC holds a 27% interest on a fully-diluted basis, totaled approximately NIS 181 million ($42 million).

Our Other Businesses

We have an interest in several service industries, mainly tourism, real estate, aviation and trading. In previous years, our "other businesses" segment also included construction and infrastructures, electrical appliances, software, food, consumer products and metal products, as well as the production of batteries.

The principal companies in our other businesses are:

	Percentage Of Equity Ownership	**Principal Products and Services**
Sheraton Moriah (Israel) Ltd.	55.0	Hotel chain
Knafaim-Arkia Holdings Ltd.	9.2(1)	Aviation and tourism services
Koor Properties Ltd.	100.0	Real estate
Koor Trade Ltd.	100.0	International trade

(1) Not consolidated in our financial statements and not included in our business data. The ordinary shares of Knafaim are traded on the TASE.

Tourism

Our interests in Israel's tourism industry include ownership and management of hotels and resorts, and other tourism-related services, such as airlines. For the years ended December 31, 2004 and 2003, our tourism business had sales of NIS 430 million ($100 million) and NIS 309 million ($72 million), respectively.

Sheraton Moriah (Israel) Ltd. (Sheraton Moriah)

The Sheraton Moriah hotel network consists of 2,201 rooms (1,724 under 100% ownership) in 8 owned or leased hotels in major tourist destinations in Israel, operating under the following brand names: Sheraton (six hotels), Luxury Collection (one hotel) and Sheraton Four Points (one hotel).

Following the continuous crisis due the escalation of violence in Israel since October 2000, since April 2003, a positive trend has developed in the incoming tourism market. Tourist entries are still over 40% less than 2000, but the improvement is consistent. As a result of the environment, Sheraton Moriah's management has continued its strict control on expenses while emphasizing revenue enhancement, including focusing on direct sales via a local central reservations office, hard-sale local web-site, and leverage of its international brand to increase the market share in both the domestic tourism and incoming tourism markets.

Knafaim-Arkia Holdings Ltd. (Knafaim)

On September 29, 2004 we signed two agreements to sell 16% of the shares of Knafaim for approximately NIS 121 million, and a third agreement for the sale of an additional 3% of the shares of Knafaim for approximately NIS 23 million. As a result of these sales, our shareholding in Knafaim decreased from approximately 28.3% to approximately 9.2%. Accordingly, for Israeli GAAP purposes, the investment in Knafaim is stated by the cost method, beginning from the date of the sale, and is classified as available-for-sale under FAS 115 for U.S. GAAP purposes. In the statement of operations for 2004, we recorded a gain of NIS 51 million. Since we intend to sell the remainder of the shares in Knafaim, the investment is presented within current assets. As a result of management's intention to sell the remainder of its holding in Knafaim, we recorded deferred taxes of approximately NIS 8 million 2004 in respect of the anticipated utilization of carryforward tax losses.

Knafaim was incorporated in 1980. Knafaim owns a variety of businesses in the travel and tourism industry, including Arkia Israeli Airlines Ltd. (75%), Israel's largest domestic airline. Arkia also purchases and leases back aircraft and operates charter flights to Europe. Knafaim also holds other companies that supply various tourism services, both domestically and internationally.

During 2003 and the first half of 2004, Knafaim acquired shares and options of El Al Israel Airlines Ltd., or El Al, which was majority-owned by the Israeli government. During the second quarter of 2004, after receiving the requisite approval to increase its stake in the shares of El Al above 5%, Knafaim exercised some of the options. Following this exercise, Knafaim held 22% of El Al's issued share capital, and pursuant to a third-party voting agreement, Knafaim held 24.9% of the voting rights of El Al. During the third quarter of 2004, Knafaim filed a request

with the State of Israel, which holds a special share in El Al, for approval to increase its stake in El Al above 25%.

On August 5, 2004 the Anti-Trust Commissioner approved the merger between Knafaim and El-Al, with restrictive conditions, mainly regarding the sale of Knafaim's aviation activities to an independent third party.

On December 22, 2004, Knafaim received the requisite approval to increase its stake in the shares of El Al to 40%, and to a shareholding that would grant control over El Al. Upon receipt of this approval, Knafaim exercised part of the purchase option so that as of March 31, 2005, Knafaim holds approximately 39.6% of the issued and paid shares of El Al and approximately 42.6% of the voting rights in El Al according to authorization that was granted to Knafaim by a third-party. The third-party authorization expired on May 2, 2005 with no other arrangement formulated in respect of the third party’s securities and since May 2, 2005 Knafaim has no voting rights in connection with the third party’s securities.

Real Estate

Tadiran’s Real Estate

In March 2002, Tadiran’s real estate was transferred to us as a liquidating dividend. We sold most of the real estate assets to a group of investors headed by Denisra International Ltd. and Ranitech Ltd for consideration of approximately NIS 273 million, and we recognized a capital gain of approximately NIS 29 million. As a result of the sale of this real estate, we realized a tax reserve of approximately NIS 44 million, created in respect of those assets, and we paid taxes of approximately NIS 40 million.

The remaining balance of the real estate assets we received from Tadiran, in the amount of NIS 42 million, was recorded under “Assets designated for sale” in our consolidated balance sheet as at December 31, 2004.

Koor Properties Ltd. (Koor Properties)

Koor Properties, our wholly-owned subsidiary, owns and develops directly and indirectly real estate in Israel. As of December 31, 2004, Koor Properties owned directly and indirectly an aggregate of approximately 52 thousand square meters of real property in different stages of development. Most of the land is commercially developed.

During 2004, Koor Properties sold most of its remaining real estate assets for NIS 3 million. We recorded a gain of NIS 2 million from this sale.

Trade

Koor Trade Ltd. (Koor Trade)

Koor Trade, our wholly-owned subsidiary, imports, exports and distributes a broad range of industrial, agricultural and consumer products through its worldwide network of offices, including offices in Europe, Asia, Latin America and Australia. For the years ended December

31, 2004 and 2003, Koor Trade had sales of NIS 112 million and NIS 96 million, respectively. Koor Trade owns a 49% equity interest in Balton C.P limited, an English international trading company, which is engaged in trading activities in seven countries in Africa relating to agricultural, telecommunications, electromechanical and air-conditioning equipment, construction and other projects.

Suppliers

The companies engaged in our businesses purchase the materials and components used in their products from numerous independent suppliers. These materials and components are not normally purchased under long-term contracts. Most of the items purchased by these businesses are obtainable from a variety of suppliers, and such businesses normally maintain alternative sources for major items. In some cases these companies have annual purchasing agreements with their major suppliers, which establish prices, quality thresholds and delivery schedules.

To date, our businesses have not experienced any significant difficulty in obtaining timely delivery of supplies, and management believes these businesses maintain adequate inventories of certain significant imported components. However, with respect to certain components, there may be a lengthy period of preparation for production and adaptation for our businesses' requirements. Accordingly, short-term shortages may arise in the event that these companies were required to change suppliers without advance planning. The unavailability of such components during such change-over period could result in production delays, which might adversely affect our business.

Research and Development

The companies in our telecommunication equipment, defense electronics, venture capital investment and in the agrochemicals businesses are actively engaged in research and development programs intended to develop new products, manufacturing processes, systems and technologies and to enhance existing products and processes. Research and development is conducted through our subsidiaries and affiliates, and is funded by a combination of our own resources and grants from the Israeli Government. We believe our research and development effort has been an important factor in establishing and maintaining our competitive position.

The following table sets forth the percentage of gross research and development expenditures incurred by our principal businesses in 2003 and 2004 as a percentage of the total sales of these businesses:

	2003	**2004**
Telecommunications Equipment	10.2%	8.4%
Defense Electronics	5.5%	4.4%
Agrochemicals	1.7%	1.6%

Our updated research and development efforts have resulted in an increase in the sales of internally designed products. We believe that research and development in high technology areas, such as our telecommunications equipment, defense electronics and agrochemicals businesses, is important to our future growth, particularly with respect to products targeted for

export markets. Accordingly, we anticipate that these businesses will account for a majority of our research and development efforts in the future. As part of our research and development programs, we not only seek to develop new products, but also to apply newly developed technologies to improve our existing products.

In each of the last three fiscal years, we received grants from the Government of Israel through the Office of the Chief Scientist, or OCS, for the development of certain products. We generally receive from the OCS 20% to 66% of certain research and development expenditures for particular projects. Under the terms of the Israeli Government participation, a royalty of 2% to 5% of the net sales of products developed from a project funded by the OCS is generally required to be paid, beginning with the commencement of sales of products developed with grant funds and ending when 100% to 150% of the grant is repaid. We have paid in the past, and currently pay, royalties on sales of such products. The terms of the Israeli Government participation also require that the research and development be conducted by the applicant for the grant as specified in the grant application and that the manufacturing of products developed with government grants be performed in Israel, unless a special approval has been granted. Separate Israeli Government consent is required to transfer to third parties technologies developed through projects in which the government participates. Such restrictions, however, do not apply to exports from Israel of products developed with such technologies. From time to time the Government of Israel has revised its policies regarding the availability of grants and participation, and there can be no assurance that the Government's support of research and development will continue in the future. In addition, in order to be eligible for the governmental grants, programs and tax benefits, we must continue to meet certain additional conditions, including making specified investments in fixed assets. Should we fail to meet such conditions in the future, we could be required to refund grants or tax benefits, together with interest and inflation adjustments.

The following table shows, for each of the periods indicated, our gross research and development expenses, the portion of such expenses that were funded by the Israeli Government (primarily through the OCS) and the net cost to us of our research and development expenses:

	Year ended December 31,			
	2002	**2003**	**2004**	**2004**
	(Adjusted NIS in thousands)			**($ in thousands)**
Gross research and development expenses	257,101	219,391	226,335	52,538
Portion funded by the Israeli Government(1)	788	(1,952)	14,220	3,301
Net research and development expenses	256,313	221,343	212,115	49,237

(1) Net of royalties.

Competition

In 2004, the majority of our sales from telecommunications equipment, defense electronics and agrochemicals businesses were derived from international sales. The companies comprising these businesses are focusing on developing new markets to increase international sales. The worldwide marketing of products in each of these businesses is highly competitive

and certain competitors are substantially larger and have substantially greater financial, production and research and development resources, more extensive marketing and selling organizations, greater name recognition and longer selling experience than us. Some of our competitors are also able to provide their customers with more direct financing or greater access to long-term, relatively low-cost government loans to finance equipment purchases.

Patents and Intellectual Property

Several of our subsidiaries and affiliates own and control a substantial number of patents, trade secrets, confidential information, trademarks, trade names and copyrights which, in the aggregate, are of material importance to our business. We are of the opinion that our business, as a whole, is not materially dependent upon any one of these assets or any related group of assets. We are also licensed to use certain patents and technology owned and controlled by others, and other companies are likewise licensed to use certain patents and technology owned and controlled by us.

The IMDF retains (and, in certain limited circumstances, certain of our other customers, including the United States Government, may retain) certain rights to technologies and inventions resulting from our performance as a prime contractor or subcontractor under certain contracts and may disclose such information to third parties, including other defense contractors who may be our competitors. When the IMDF and, in certain limited circumstances, certain of our other customers, fund research and development, they usually acquire rights to data and title to inventions and we may retain a non-exclusive license for such inventions. In certain circumstances, the IMDF and some of our other customers are entitled to receive royalties in connection with the sale of products, the development of which was financed by those entities. However, if the IMDF or one of our other customers purchases only the end product, we normally retain the principal rights to the technology.

Regulation

Our diverse businesses are subject to significant statutory and administrative regulation in the various jurisdictions in which we operate throughout the world. Among the regulations to which we are subject are those described below.

Monopoly and Pricing Regulations

We and our subsidiaries or affiliates may be declared monopolies or otherwise be subject to certain legal obligations and restrictions established by the Controller or by the Restrictive Business Practices Court, or the Court, in the event that our market share, or the market share of our subsidiaries or affiliates, exceeds certain prescribed limits.

Environmental, Health and Safety Matters

General

We are subject to laws and regulations concerning environmental conditions, product safety, health and safety matters and the regulation of chemicals in countries where we manufacture and sell our products. These requirements include regulation of the handling,

manufacturing, transporting and use and disposal of certain materials, as well as regulation concerning the discharge of pollutants into the environment. In the normal course of our businesses, we are exposed to risks relating to the possible release of hazardous substances into the environment, which may cause environmental or property damage or personal injuries. In Israel, where we maintain our principal production facilities, losses and damages relating to continuous environmental pollution are currently uninsurable.

It is our policy to comply with environmental, health, product safety and other safety requirements, and to provide workplaces for our employees that are safe and environmentally sound, and that will not adversely affect the health or environment of the communities in which we operate. From time to time, our facilities may be subject to environmental compliance actions and the resolution of such matters has in the past involved the establishment of certain compliance programs. Israeli legislation enacted in 1997 amended certain environmental laws by authorizing the relevant administrative and regulatory agencies to impose sanctions on non-complying parties, including issuing an order against any person that violates environmental laws to remove the environmental hazard. In addition, these laws impose criminal liability on the officers and directors of a corporation that violates environmental-related laws, and increases the monetary sanctions that such officers, directors and corporations may be ordered to pay as a result of such violations. We have established worker safety programs and procedures in our plants, which we believe are reasonable under the circumstances. We believe that our experience relating to worker accidents is generally consistent with industry-wide experience. Furthermore, we believe that we are not currently subject to material liabilities for non-compliance with applicable environmental, health and safety laws, although there is a risk that legislation enacted in the future could create liabilities for past activities undertaken in compliance with then-current laws or regulations. In addition, we may be held liable for environmental damage of which we are not presently aware.

In addition to the specific matters described below, at a number of locations at which certain of the businesses have conducted manufacturing operations for many years, it is possible that contamination may exist as a result of on-site waste disposal, spills, use of wastewater treatment ponds, or other historical practices. While in recent years, industrial solid wastes generally have been disposed of at a central State-authorized disposal facility in Ramat Hovav, this central facility was not available to Israeli industry during earlier periods of our operations. It is unclear whether any existing conditions on any property owned by us will require significant redemption or cleanup in the future, and we cannot speculate about the timing or potential costs associated with any such cleanup. It is possible, however, that material expenditures could be required with respect to these past practices.

In recent years, the operations of our businesses have become subject to increasingly stringent legislation and regulation related to occupational safety and health, product registration and environmental protection. Such legislation and regulations are complex and constantly changing, and there can be no assurance that such regulatory changes in the future will not require us to make significant capital expenditures to modify, supplement or replace equipment, or to change methods of disposal or discharge, or the manner in which we manufacture products or operate our businesses. In Israel, in particular, we anticipate that increasingly stringent requirements will result in substantial expenditures, particularly for improvements of environmental controls at older facilities. We have generally adopted, or intend to adopt in our

newer facilities, environmental control standards comparable to those set by the German Technische Anleitung Luft air emission regulations. These regulations set forth strict controls on air emissions from industrial facilities. The Israeli government has looked to these standards as a basis for upgrading its air pollution requirements and has applied the standards to some, but not all, facilities in Israel.

We regularly incur capital expenditures and operating costs to comply with various environmental, health and safety laws and regulations. The costs related to environmental matters may increase significantly in the future if the implementation of new environmental standards in Israel is more rapid or stringent than currently anticipated by us, or if contemplated pollution control measures do not achieve the desired results.

Agrochemical Industry

The distribution and use of agricultural chemical products, including crop protection chemicals such as those produced by the agrochemicals business, are regulated in most parts of the world, and require extensive testing, quality control and compliance with registration procedures. The strictest standards are applied in the United States, where the Environmental Protection Agency, or EPA, is the leading regulator, and in Japan and Western Europe. The granting of a registration involves consideration of health, safety and environmental issues, as well as the performance and benefits of the product. The registration for an agricultural chemical product in the U.S. and in Western Europe is often subject to data call-in or process. Usually, updating the registration necessitates the submission of additional data by the MA Group, our agrochemical division. Re-registrations, which permit the continued sales of pesticides for an additional period, are frequently granted as a matter of course, subject to compliance during the term of the registration period. While the MA Group is not aware of any immediate intent to cancel any of its registrations, there can be no assurance that the MA Group will not face a revocation process or encounter difficulties in renewing the registrations for its products for additional periods.

From time to time, some of the MA Group’s agrochemical products are subject to legislative or other initiatives to curtail or regulate their use due to environmental, health or safety concerns.

Registration expenses (according to US GAAP) for the MA Group in 2004 were $17 million compared to $12 million in 2003 and $33 million in 2002. The registration expenditures decreased as compared to the registration expenditures in 2002 as a result of MA Industries' purchase of several business licenses and distribution rights for agrochemical products from Bayer during 2002. The MA Group believes that its registration expenditures in the future will increase, based on the stricter standards that are expected to be applied in countries where the MA Group sells its products and the likelihood that MA Group will purchase additional products from competitor's on the agrochemical industry. As a result of the foregoing developments and obligations, virtually all of the MA Group’s businesses in recent years have spent significant amounts on operation and maintenance, as well as under capital programs to address increasingly stringent requirements with respect to environmental, safety, and health protection concerns.

Most of the manufacturing activities of the MA Group take place at the two production facilities in Israel. The board of directors of MA Industries appointed an Ecology Committee to receive regular reports from all the subsidiaries where manufacturing takes place (Israel, Brazil, Colombia, Greece and Spain). The subsidiaries control the environmental issues pertinent to their particular products, which differ from site to site and from country to country. The investment in meeting environmental standards amounted to about $19 million in 2002, $23 million in 2003 and $24 million in 2004, and it is estimated that the annual investment will be between $18 and $22 million in the coming years, including expenditures as described below.

One of MA Industries' plants is located in the Ramat Hovav industrial zone. The Ramat Hovav Industrial Council has been required to take intensive action to prevent odor nuisances, the source of which is the evaporation ponds in the Ramat Hovav industrial zone.

The industrial wastes of the plants, after pre-treatment at the plants, are transferred to the responsibility of and for further treatment by the industrial council. This arrangement has been in effect since the industrial zone in Ramat Hovav was built at the end of the 1970s. In 1998-99 the council erected and operated a biological installation for industrial wastes, to reduce the biological load of industrial wastes before piping them to the evaporation ponds.

The industrial council was directed by the Ministry of Environmental Protection to make arrangements to end the piping of the industrial wastes to the evaporation ponds, no later than June 30, 2006. In addition, the Ministry of Environmental Protection stated that on that date, the quality of the wastes must meet a minimum level of Total Organic Carbons, Carbon Oxygen Demand and Biological Oxygen Demand, or TOC, COD and BOD, respectively. The industrial council adopted a significant resolution in principle to change its operations so that each plant in the industrial zone is required to treat its own wastes in order to reduce the biological load and attain new required standards. Furthermore, the plants are required to reduce the plant BOD levels by June 30, 2006.

Each of MA Industries' plants in Ramat Hovav makes preparations to treat its own wastes. In order to comply with the TOC, COD and BOD standards, a biological treatment installation will have to be built, as well as additional upstream pre-treatment installations. MA Industries has hired the professional services of entities of proven experience in the chemicals industry in Germany and Switzerland, and believes it can achieve the correct technological solutions for an amount of between $30 million and $35 million. The short-term requirements for BOD are currently being clarified and the options discussed, between the plant, the industrial council and the Ministry for Environmental Protection.

During recent years, the MA Group has invested consistently and regularly in all its plants, in Israel and abroad, to improve standards relating to the quality of the environment, and its plants have been awarded the President's Prize as well as commendations from the Ministry for Environmental Protection in the last few years. MA Industries is in compliance with ISO-9001 and ISOP-14,001 (environment) and with OHSAS 18,000 (safety). The production sites at Ramat Hovav and Ashdod in Israel have been operating in compliance with ISO 14.001 since that standard was approved by the Israel Institute of Standards in 1997. Compliance with the standard requires the senior management to formulate an environment policy and develop a

program for its implementation. In addition, in 1998 the MA Group also adopted the German standard Ta Luft (air pollution) at its Ramat Hovav and Ashdod sites.

Over the past several years various tests have been performed by different agencies to test the ground contamination in the Ramat Hovav area as well as the area surrounding the subsidiary's premises in Be'er Sheva. As of December 31, 2004, MA Industries' management did not expect a significant impact with respect to MA Industries from implementation of the report's recommendations, and, therefore, no provision has been included in the financial statements.

In May 2004, a subsidiary of MA Industries owning plants at the Ramat Hovav site, received notice of a change in the terms of its business license, pursuant to which the plants were required to change the method used to treat sewage from the existing treatment, and to do so independently through the implementation of vaporization processes. These terms include demands that, within a short period of time, the plants conduct research and development for the purpose of customizing the process to the composition of each plant's sewage, and later, to build a suitable facility. Additionally, formulation processes are to be implemented, whereby the plants must present the Ministry of Environmental Protection with a research and development program for the purpose of implementing the process with respect to the sewage. At the same time, the Ministry of Environmental Protection set January 1, 2008 as the date by which the plants must treat the sewage in the requisite format and to stop the flow of sewage into the Ramat Hovav Industrial Council's vaporization pools and treatment facilities.

On October 10, 2004, a subsidiary of MA Industries, together with the Israel Manufacturers Association and other companies, filed an administrative appeal with the Beer Sheba District Court against the Ministry of Environmental Protection. The subject of the appeal is the additional conditions for obtaining a business license described above. In the appeal, the District Court was asked to issue an order declaring that the additional terms are nullified. In March 2005 the Court approved the mutual agreement of the parties to try to end the dispute by way of meditation.

In the estimation of MA Industries' management, based on advice of its legal counsel, in view of the preliminary stage of the process, it is not possible at this time to estimate the prospects of the mediation. In the estimation of MA Industries' management, if the appeal is dismissed, it will have a material effect on the activities of the plant in Ramat Hovav and/or will require investments of amounts that MA Industries' management is unable to estimate at this time.

On November 28, 2004, the Israeli government reached a decision approving a plan to reduce air and water pollution deriving from the Ramat Hovav industrial area. The plan calls for, among other things, (i) more restrictive rules regarding the treatment of sewage by the plants in the area (derived from the additional business license conditions that are the subject of the administrative appeal described above) to be complied with in two stages, the first by June 30, 2006 and the second by December 31, 2007; (ii) the drying and rehabilitation of the vaporization pools in the area by the Ramat Hovav Industrial Council, to be completed no later than December 31, 2012; and (iii) the formulation and implementation by the Ministry of

Environmental Protection of a plan to prevent exceptional emission of hazardous materials into the air from the Ramat Hovav industrial area.

In the estimation of MA Industries' management, based on advice from its legal counsel, in view of the preliminary stage of the process, it is not possible at this time to estimate the costs of complying with the Israeli government's plan.

In November 2004 the Board of Directors of MA Industries approved a master plan for investments in environmental matters as they relate to the manufacturing sites in Israel. This included approval of investments of approximately $60 million during the period from 2005 through 2008, the implementation of which will depend on numerous factors, such as environmental conditions and technology feasibility studies for the sites), some of which are beyond MA Industries' control and there is therefore no certainty that they will take place.

In August 2003, a criminal complaint was filed against MA Industries and one of its officers by the Man, Nature and Law Foundation. The complaint alleges that in several instances from 1999 to 2003, there were measurements at MA Industries' Ramat Hovav plant of chimney emissions of materials at prohibited concentrations, and that such emissions created strong air pollution. MA Industries believes the charges in the complaint are without merit and intends to defend itself against such charges. In the opinion of MA Industries' management, based on advice from its legal counsel, due to the early stage of the proceedings, it is not possible to estimate the outcome of the complaint and/or the resultant exposure. Therefore, the financial statements did not include a provision in respect of the proceedings.

Defense and Government Contracts

Our businesses which sell products to military and governmental markets are subject to various statutes, regulations and administrative rules governing defense and government contracts and the manufacture and sale of defense products in the United States, Israel and other countries throughout the world.

Defense electronics subsidiaries export a number of military systems and products in accordance with the military export policy of the State of Israel. Current Israeli policy encourages exports to approved customers of military systems and products similar to those manufactured by us, provided that such exports do not run counter to Israeli Government policy, including national security considerations. A permit is required to initiate a sale proposal and an export license is necessary for the actual sale transaction. To date, we have not encountered significant difficulties in obtaining or retaining the necessary permits or licenses, but no assurance can be given that we will continue to be able to obtain or retain such permits or licenses or that one or more permits or licenses will not be revoked, or that governmental policy with respect to military exports will not be altered. Difficulties in obtaining or retaining such permits or licenses, if encountered in the future, could have a material adverse effect upon our business.

In addition, the revocation of a required permit or license, after having been granted, would likely preclude us from fulfilling our contractual obligations. In such a case, we might be unable to assert the defense of force majeure (or a similar defense) relating to any resulting

breach of contract claim and might therefore be held liable for damages, or subject to other penalties. Substantial damages arising from such a claim could have a material adverse effect upon our results of operations and financial condition. In addition, suspension or disbarment of us as a government contractor is among the possible penalties that could be imposed for defaulting on a contractual obligation due to the revocation of a license.

Joint Ventures, Subcontracting and Teaming Arrangements

Several of our military projects are conducted through joint ventures, subcontracting and other "teaming" arrangements pursuant to which we are responsible for a portion, but less than all, of a project. In certain instances, we are not permitted to participate, or even assist, in portions of projects for which we are not responsible. Notwithstanding the foregoing, in the event of a termination of, or a default under, certain prime contracts or subcontracts (whether or not we are a party to such prime contract or subcontract), including a termination for cause or convenience or a default on the part of a joint venture partner, prime contractor, subcontractor or "teaming" partner (for which termination or default neither we nor such other person is responsible and which termination or default may be beyond our control and such other person's control), we might be held liable for damages, or subject to other penalties, which could be very substantial and might have a material adverse effect on our results of operations and financial condition. Moreover, certain joint ventures, subcontracting or other "teaming" agreements to which we are a party, deny or limit the right of the non-defaulting party to seek damages or indemnification from the defaulting party in such circumstances.

Contract Financing

There are various types of financing terms applicable to defense contracts (and in some cases, large telecommunications contracts). In some cases, we receive progress or milestone payments according to the percentage of progress in our performance or the achievement of specific milestones. In certain cases, work is performed prior to receipt of any payment, which means that we finance the project. In other cases, we receive advance payments prior to incurring the costs of fulfilling a contract, which creates a positive project cash flow. In this latter case, the customer normally requires financial guarantees against advance payments. We often receive substantial advances from our customers. In the event that a contract under which an advance has been paid is canceled, we may be required to return all or a portion of such advances to the customer.

Fixed Price Contracts

Approximately 90% of our defense contracts are made on a fixed price basis. Such contracts are subject to the risk that actual costs may exceed those anticipated at the time the contracts are executed, particularly when the products to be sold pursuant to the contracts require a substantial amount of development.

Organizational Structure

The following is a list of all of our significant subsidiaries and affiliates as of December 31, 2004, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.

Name of Subsidiary/Affiliate	Country of Incorporation or residence	Percentage of ownership interest	Percentage of voting power (if different from ownership)
Koor Corporate Venture Capital	Israel	100%	N/A
Elisra Electronic Systems Ltd.	Israel	70%	N/A
Makhteshim-Agan Industries Ltd.	Israel	38.6%(1)	N/A
Tadiran Communications Ltd.	Israel	30.8%(2)	N/A
ECI Telecom Ltd.	Israel	30.2%	N/A
Telrad Networks Ltd.	Israel	80.5%	N/A
ECtel Ltd.	Israel	12.9%	N/A
Sheraton Moriah (Israel) Ltd.	Israel	55.0%	N/A
Knafaim-Arkia Holdings Ltd.	Israel	9.2%	N/A
Koor Trade Ltd.	Israel	100%	N/A

(1) As a result of our sale of 15.9 million shares of MA Industries on February 3 ,2005 and the issuance of additional shares by MA Industries in the second quarter of 2005 upon the conversion of convertible debentures and the exercise of stock options including employee stock options, our interest in MA Industries decreased to approximately 32.0% as of June 30, 2005 (approximately 28.6% on a fully diluted basis taking into consideration the exercise of outstanding stock options and the conversion of outstanding convertible debentures).

(2) Fully diluted, taking into consideration the exercise of outstanding stock options. As a result of our sale of shares in April 2005, our interest in Tadiran Communications decreased to 18.6%. See "Our Defense Electronics Business – Recent Developments" above.

Property, Plants and Equipment

Our headquarters are located in 2,785 square feet of leased office space on the top floor of the Telrad building at 14 Hamelacha Street, Rosh Ha'ayin, Israel.

We own an aggregate of 18,000 square feet of office space in the Platinum Building in Tel Aviv, where our headquarters were previously located. We purchased this facility in 1998 and since January 1, 2004, this property has been sublet in its entirety.

The manufacturing facilities of our subsidiaries and affiliates are located throughout Israel. Major concentrations are in the Be'er Sheva/Ramat Hovav area in the south of Israel and the Tel Aviv-Petach Tikva-Lod-Ashdod area in the central part of Israel. We own our major manufacturing plants, facilities, machinery and equipment. In addition, we lease certain manufacturing and office facilities.

Most of the industrial land utilized by us is under 49-year leases from the Israel Lands Authority with options for an additional 49 years in a significant number of cases. Land rent on

uncapitalized leases is generally equal to 4% of the value of the land per annum and is subject to revaluation every seven years.

Item 5. Operating and Financial Review and Prospects.

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this annual report. Our financial statements have been prepared in accordance with Israeli GAAP, which differ in significant respects from U.S. GAAP. See Note 28 to our consolidated financial statements, included elsewhere in this annual report, for a description of the principal differences between Israeli GAAP and U.S. GAAP as they relate to us.

In accordance with amendments to Israeli GAAP published in October 2001 and December 2002, our financial statements for the year ended December 31, 2004 are no longer adjusted to reflect the effects of inflation. For all financial reporting periods until December 31, 2003, Israeli GAAP required that our consolidated financial statements recognize the effects of inflation. Consequently, financial data for all periods until December 31, 2003 in our consolidated financial statements and throughout this annual report, except as otherwise noted, have been adjusted to reflect changes in the Israel consumer price index, or CPI, and have been restated in NIS in terms of the purchasing power as of December 31, 2003. The financial statements of the MA Group, the Elisra Group, Knafaim and ECI are prepared in dollars, the functional currency of these companies, which are then translated into NIS using the exchange rate prevailing at the end of the period for balance sheet items and the exchange rate prevailing on the transaction date for income and expense items. See Notes 2B and 2D to our consolidated financial statements included elsewhere in this annual report.

Transactions among our subsidiaries and transactions between our company and our subsidiaries are entered into on an arm's-length basis and, in management's opinion, generally on terms no less favorable than those available from third parties.

The following discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this annual report, particularly those described above under Item 3, "Key Information – Risk Factors."

Critical Accounting Policies

Our consolidated financial statements included elsewhere in this annual report have been prepared in accordance with Israeli GAAP, which differ in significant respects from U.S. GAAP. See Note 28 to our consolidated financial statements, included elsewhere in this annual report, for a description of the principal differences between Israeli GAAP and U.S. GAAP as they relate to us.

Pursuant to our application of Israeli GAAP, we have identified below accounting policies critical to understanding the overall financial reporting of Koor. A more complete

discussion of the significant accounting policies which we follow in preparing our financial statements is set forth in Note 2 to our financial statements included elsewhere in this annual report.

In addition, the preparation of our financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On a regular basis, we evaluate and may revise our estimates. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities, that are not readily apparent. Some of those judgments can be complex, and consequently, actual results may differ from those estimates. For any given individual estimate, judgment or assumption made by us, there may be alternative estimates, judgments or assumptions, which are also reasonable. The following discussion of our critical accounting policies includes references to several critical accounting policies that are impacted significantly by judgments, assumptions and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We follow very specific and detailed guidelines, several of which are discussed below, in measuring revenue. However, such guidelines may require the exercise of certain judgments, estimates and assumptions.

Revenues from product sales and services rendered are recognized upon delivery of the products and/or when the economic risk of loss passes to the customer, or upon performance of the services. In special contracts, revenues from product sales are recognized after performing the work and passing acceptance tests, as provided in the applicable product delivery contract.

Revenues and costs from work in progress under long-term contracts are recognized by the “percentage of completion” method, if the following conditions are met:

- the revenues are known or can be reliably estimated;
- the collection of revenues is expected;
- the costs involved in carrying out the project are known or can be reliably estimated;
- there is no material uncertainty as to the ability to complete the project and to meet the terms of the contract with the customer; and
- the percentage of completion may be reliably estimated.

If any of these conditions are not met, revenues are recognized at an amount equal to the costs incurred and the recovery of which is expected.

The percentage of completion is determined based on the cost (actual cost vs. projected total cost) or based on the delivery of products, depending on the nature of the agreement.

Revenues and costs from government contracts, which are based on cost plus a fixed margin, are recognized on an accrual basis.

In the event that we anticipate a loss on a particular contract, such anticipated loss is provided for in full.

Projected earnings or losses from long-term contracts could change as a result of changes in estimates, between the actual performance and the original estimate. Such changes in estimates are charged to the statement of operations when identified.

Inventories

Inventories are stated at the lower of cost or market value. Cost for raw materials, auxiliary materials and spare parts is determined at average cost or by the "first-in, first-out" method. Cost for finished goods and goods in process is determined primarily on the basis of direct manufacturing costs and, in part, on the basis of average manufacturing costs with the addition of indirect manufacturing costs. Cost for merchandise is determined by the "first-in, first-out" method or by the "moving average method." In determining inventory value, we make assumptions as to the market value of inventory. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of a rapidly changing technology and customer requirements, we may be required to increase our inventory allowances and our gross margin could be adversely affected.

Investments in Non-consolidated Subsidiaries and Affiliates

Our investments in our non-consolidated subsidiaries and affiliates are presented using the equity method. Since January 1, 2004 we have applied IASB Accounting Standard No. 20 – "Goodwill amortization", according to which goodwill arising from the acquisition of equity in a non-consolidated subsidiary or affiliate is generally amortized at equal annual rates over a period of 10 to 20 years commencing from acquisition date. See also "Intangible Assets and Deferred Expenses" below.

From time to time we review our investments in our non-consolidated subsidiaries and affiliates to identify whether there has been a decrease in the value of such investments which is not of a temporary nature. We would conduct such reviews when there are signs that the value of permanent investments has been harmed, including a drop in stock market prices, the subsidiary's or affiliate's sequential loss, the segment in which the subsidiary or affiliate operates, the value of the goodwill aggregated in the investment and other parameters. Following management's assessment of all the relevant factors that are not of a temporary nature, we may make appropriate provisions for the adjustment of the value of these investments, which would be reflected in our consolidated statement of operations.

Since January 1, 2003, we have applied IASB Accounting Standard No. 15 – "Impairment In value of Assets," or Standard No. 15, to ensure that our assets in the consolidated balance sheet are not stated at an amount exceeding their recoverable value, which is the higher of the net sales price and the usage value, which is the present value of the estimated future cash flows expected to derive from the use and realization of the asset. Standard No. 15, which is

based on International Accounting Standard No. 36, applies to all of our assets in the consolidated balance sheet, except for tax assets and monetary assets. Likewise, Standard No.15 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, we recognize an impairment loss equal to the difference between the book value of the asset and its recoverable value. A loss in recognized in this manner will be reversed only if changes have occurred in the estimates used in determining the recoverable value of the asset, from the date on which the last impairment loss was recognized.

Intangible Assets and Deferred Expenses

Intangible assets are amortized over the estimated period of the economic benefit provided by the particular asset. We assess the recoverability of these intangible assets periodically by determining whether unamortized capitalized costs do not exceed the net realizable value of the particular asset. Licensing of products and acquisition of know-how are stated at cost and are mostly amortized over 8 years. Marketing rights are stated at cost and amortized over periods of 5 to 10 years. Intangible assets in the purchase of products are stated at cost and are mainly amortized over 20 years. Since January 1, 2004 we have applied IASB Accounting Standard No. 20 – "Goodwill amortization", according to which goodwill deriving from acquisitions or investments is amortized over the period of economic benefit at equal annual rates over a period of 10 to 20 years commencing from the acquisition date. Non-compete and confidentiality agreements are mostly amortized over 5 years.

Deferred expenses relating to debenture issuance costs are amortized using the straight-line method over the life of the debentures, which is usually six years.

Recently Issued Accounting Pronouncements in Israel

In July 2004, the IASB published Accounting Standard No. 19, "Taxes on Income," or Standard 19, which prescribes that a deferred tax liability is to be recognized for all temporary differences that are taxable, except for a limited number of exceptions. Likewise, a deferred tax asset is to be recognized for all temporary differences that are deductible, losses for tax purposes and unutilized tax benefits, if it is expected that there will be taxable income against which it will be possible to utilize them, except for a limited number of exceptions. Standard No. 19, which applies to financial statements beginning on January 1, 2005, was adopted as the cumulative effect of a change in accounting method. Our annual financial statements as of December 31, 2004 includes footnote disclosure regarding the anticipated effect of the first-time application of Standard No. 19 of an increase in net earnings of NIS 19 million, primarily due to the recording of deferred taxes in an investee for intercompany revenues. However, as a result of a reexamination of Standard No. 19 by the investee, regarding the creation of deferred taxes for unrealized intercompany sales, the investee's management reached the conclusion that continuing to apply the "deferral approach," whereby it would continue to allocate taxes to this income based on the tax rate applicable to the seller company, is consistent with the provisions of Opinion No. 57 of the Institute of Certified Public Accountants in Israel. Accordingly, our first-time application of Standard No. 19 during the first quarter of 2005 had a one-time cumulative effect, as at January 1, 2005, of reducing our net earnings for the year ended December 31, 2004 by approximately NIS 3

million, as a result of the revised application of Standard No. 19 by the investee as described above.

Impact of Devaluation on Results of Operations and on Monetary Assets and Liabilities

The following table sets forth, for the periods indicated, certain information with respect to the rate of inflation in Israel, the rate of devaluation of the NIS in relation to the dollar and the rate of inflation in Israel adjusted for the NIS-dollar devaluation:

Year Ended December 31,	Israeli Consumer Price Index (1)	Israeli Inflation Price Rate(2)	Closing Exchange Rate of the Dollar (3)	Annual Devaluation Rate (4)	Annual Inflation Adjusted for Devaluation (5)
2000	168.53	0.0	NIS 4.041	(2.7)	2.8
2001	170.91	1.4	NIS 4.416	9.3	(7.2)
2002	182.01	6.5	NIS 4.737	7.3	(0.7)
2003	178.58	(1.9)	NIS 4.379	(7.6)	6.2
2004	180.74	1.2	NIS 4.308	(1.6)	2.8

(1) For purposes of this table, the CPI figures use 1993 as the base equal to 100. These figures are based on reports of the Israel Central Statistics Bureau.
(2) Annual inflation is the percentage change in the CPI in Israel between December of the year indicated and December of the preceding year.
(3) Closing exchange rate is the rate of exchange between the NIS and the dollar as of December 31 of the year indicated, as reported by the Bank of Israel.
(4) Annual devaluation is the percentage increase in the value of the dollar in relation to the NIS during the year indicated.
(5) Annual inflation adjusted for devaluation is obtained by dividing the Israeli inflation rate (column 2 plus 1) by the annual devaluation rate (column 4 plus 1), minus 1.

Since most of our operations are based in Israel, we incur significant expenses in NIS, which expenses are usually linked, wholly or partially, to changes in the CPI.

The relationship between our monetary assets and liabilities, and the extent to which these are linked to a particular currency or price index, affects our financial results. In the event of a devaluation of the NIS in relation to the dollar, we would report a financial expense to the extent that our dollar-denominated or dollar-linked monetary liabilities exceed our dollar-denominated or dollar-linked monetary assets or, conversely, we would report financial income if our dollar-denominated or dollar-linked monetary assets exceeded our dollar-denominated or dollar-linked monetary liabilities. On December 31, 2004, the excess of our foreign currency denominated or linked monetary liabilities over our foreign currency denominated or linked monetary assets was NIS 1,773 million (the majority of which was dollar-denominated or dollar-linked).

In addition, we and certain of our subsidiaries have entered into financial agreements with major Israeli banks and other financial institutions in order to reduce the overall exposure of assets and liabilities denominated in foreign currencies, and commitments for the purchase of raw materials and the sale of goods in currencies other than the dollar arising from foreign currency exchange rates. Such agreements include forward sales, purchase contracts, sale

options and swap transactions. For more details regarding the balance of our hedging agreements as of December 31, 2004, see Note 21 to our consolidated financial statements included elsewhere in this annual report. The caption “Financing expenses, net” in our consolidated financial statements includes the impact of these factors on monetary assets and liabilities, as well as regular interest expense.

Results of Operations

The following tables summarize certain recent financial information relating to each of our businesses. The tables are prepared on the same basis as that utilized in our consolidated financial statements included elsewhere in this annual report.

	CPI – adjusted NIS as of December 31, 2003				2003/2002 Changes	NIS		Translation into Dollars	2004/2003 Changes
	2002	%	2003	%	%	2004	%	2004	%
	(In thousands)		(In thousands)			(In thousands)		(In thousands)	
REVENUES FROM SALES AND SERVICES									
Telecommunication equipment	814,108	11.47	796,059	10.35	(2.22)	615,057	6.66	142,771	(22.74)
Defense electronics	1,687,551	23.77	1,286,432	16.73	(23.77)	1,165,998	12.63	270,659	(9.36)
Agrochemicals	4,140,471	58.32	5,191,913	67.51	25.39	6,895,238	74.72	1,600,566	32.81
Other	457,660	6.44	416,026	5.41	(9.10)	552,380	5.99	128,222	32.78
Total	7,099,790	100	7,690,430	100	8.32	9,228,673	100	2,142,218	20.00
OPERATING EARNINGS (LOSS):									
Telecommunication equipment	(178,623)	(34.43)	3,158	0.34	(101.77)	(64,491)	(5.02)	(14,970)	(2142.15)
Defense electronics	78,853	15.2	(4,294)	(0.46)	(105.45)	30,865	2.40	7,164	(818.79)
Agrochemicals	658,507	126.93	949,290	102.61	44.16	1,312,534	102.10	304,674	38.26
Venture capital investments	(7,894)	(1.52)	(1,445)	(0.16)	(81.69)	(1,457)	(0.11)	(338)	0.83
Other	(32,062)	(6.18)	(21,536)	(2.33)	(32.83)	8,030	0.63	1,864	(137.29)
Total	518,781	100	925,173	100	78.34	1,285,481	100	298,394	38.94
Joint general expenses	(38,917)		(28,888)		(25.77)	(42,695)		(9,911)	47.79
Total operating earnings	479,864		896,285		86.78	1,242,786		288,483	38.66
CAPITAL EXPENDITURES:									
Telecommunication equipment	15,554	1.19	7,173	2.25	(53.88)	21,015	2.39	4,878	192.97
Defense electronics	45,753	3.48	28,210	8.85	(38.34)	21,408	2.44	4,969	(24.11)
Agrochemicals	1,241,091	94.53	277,195	86.94	(77.67)	816,287	92.90	189,482	194.48
Other	10,464	0.8	6,262	1.96	(40.16)	19,991	2.27	4,641	219.24
Total	1,312,862	100	318,840	100	(75.71)	878,701	100	203,970	175.59
CORPORATE ASSETS	108		392		262.96	423		98	7.91
	1,312,970		319,232		(75.69)	879,124		204,068	175.39
EXPORTS OF KOOR PRODUCTS BY BUSINESSES (1)									
Telecommunication equipment	695,962	13.49	721,957	12.23	3.74	569,701	8.20	132,243	(21.09)
Defense electronics	1,056,968	20.49	760,964	12.89	(28.01)	549,440	7.91	127,539	(72.20)
Agrochemicals	3,404,650	66.02	4,419,795	74.88	29.82	5,828,607	83.89	1,352,973	31.88
Total	5,157,580	100	5,902,716	100	14.45	6,947,748	100	1,612,755	17.70
REVENUES FROM SALES AND SERVICES BY DESTINATION (2)									
North America	1,125,915	15.86	1,152,009	14.98	2.32	1,542,409	16.71	358,034	33.89
Europe	1,864,012	26.26	2,473,635	32.17	32.70	3,150,853	34.14	731,396	27.38
South America	1,213,485	17.09	1,670,256	21.72	37.64	2,056,261	22.28	477,312	23.11
Asia and Australia	1,123,387	15.82	1,050,873	13.66	(6.45)	842,986	9.13	195,679	(19.78)
Africa	228,632	3.22	323,206	4.20	41.37	256,010	2.77	59,427	(20.79)
Israel	1,544,359	21.75	1,020,451	13.27	(33.92)	1,380,154	14.96	320,370	35.25
Total	7,099,790	100	7,690,430	100	8.32	9,228,673	100	2,142,218	20.00

(1) Including foreign industrial operations.

(2) Destination to which shipment is made.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

The following is an analysis of our consolidated results of operations, followed by an analysis of the results of operations of each of our businesses.

Revenues from sales and services. Revenues from sales and services increased 20.0% to NIS 9,229 million in 2004 compared to NIS 7,690 million in 2003. The increase was mainly due to an increase of NIS 1,703 million in MA Industries' revenues and a slight increase in the revenues of Sheraton Moriah and Isram (NIS 121 million), partially offset by decreases in the revenues of Telrad (NIS 186 million) and the Elisra Group (NIS 120 million).

Export and international operations, representing 85% of our net revenues in 2004, increased 17.7% in 2004 compared to 2003, primarily as a result of a NIS 1,620 million increase in MA Industries' exports , partially offset by decreases in the exports of Telrad (NIS 171 million) and the Elisra Group (NIS 212 million).

Gross profit. Gross profit increased 28.0% to NIS 2,941 million in 2004 compared to NIS 2,297 million in 2003. The increase in gross profit was primarily attributable to improved profits at MA Industries (NIS 680 million), partially offset by a decrease in the gross profit of Telrad (NIS 119 million). Gross profit as a percentage of revenues was 31.9% in 2004 compared to 30.0% in 2003.

Operating earnings. Operating earnings increased 38.7% to NIS 1,243 million in 2004 compared to NIS 896 million in 2003. The increase in operating earnings was mainly due to an increase in the operating earnings of MA Industries (NIS 363 million), partially offset by Telrad's operating loss. Operating earnings as a percentage of revenues was13.5% in 2004 compared to 12.0% in 2003.

Financing expenses, net. Financing expenses, net were NIS 271 million in 2004 compared to NIS 228 million in 2003. Despite the decrease in our consolidated net debt, financing expenses increased in 2004 compared to 2003 due to the impact of the increase in the CPI on our CPI-linked long-term loans following the discontinuation of the adjustment of our financial statements for inflation as of January 1, 2004.

Other income (expenses), net. Other expenses, net, amounted to NIS 79 million in 2004 compared to NIS 220 million in 2003. Other expenses, net, in 2004 included:

- Capital gains of NIS 223 million from sale of investments, mainly the sale of 7% of our equity interest in MA Industries and the sale of 19% of our equity interest in Knafaim. In 2003 we recorded capital gains of NIS 33 million from the sale of investments, mainly from the sale by Telrad of certain investments, and our sale of 2.6% of our equity interest in MA Industries;
- Impairment in the value of investments and assets of NIS 73 million, including a NIS 58 million impairment of Koor CVC's investments. In 2003, we recorded an impairment in the value of investments and assets of NIS 107 million, including a NIS 72 million impairment of Koor CVC's investments;

- Provision for severance compensation of NIS 54 million, primarily at MA Industries (NIS 22 million) and Telrad (NIS 24 million), compared to NIS 28 million in 2003; and
- Goodwill amortization and write-off of NIS 136 million, primarily at MA Industries (NIS 131 million) and Elisra (NIS 4 million), compared to NIS 119 million in 2003.

Income tax. Income tax recorded in 2004 amounted to NIS 287 million compared to NIS 85 million in 2003. The increase was mainly due to increases of NIS 84 million and NIS 21 million in the tax expenses of MA Industries and Elisra, respectively, as well as an increase of NIS 42 million in the tax expense of Telrad, mainly as the result of the impairment of a deferred tax asset. In addition, tax expenses at the parent company level increased by NIS 37 million, mainly due to the realization of a deferred tax asset, created in 2003 in connection with the sale of shares of MA Industries in 2004. Taxes on income as a percentage of revenues in 2004 and 2003 were 3.1% and 1.1%, respectively.

Group's equity in the operating results of affiliates, net. The Group's equity in the operating results of affiliates, net in 2004 was a loss of NIS 28 million compared to a loss of NIS 114 million in 2003. This item mainly included the write-off of NIS 20 million of the purchase price of Tadiran Communications allocated to in-process research and development, and our equity share in the net loss of ECI in the amount of NIS 15 million, compared with NIS 101 million in 2003. In 2004, our equity share in the earnings of Knafaim was negligible, compared to a loss of NIS 11 million in 2003.

Minority interest in consolidated companies' results, net. Minority interest in consolidated companies' results, net amounted to earnings of NIS 433 million in 2004 compared to earnings of NIS 203 million in 2003. The increase was mainly due to MA Industries (NIS 191 million) and Telrad (NIS 26 million).

Net earnings (loss). For the reasons mentioned above, we reported net earnings of NIS 145 million in 2004, compared to NIS 46 million in 2003.

Telecommunications Equipment Business

	Year Ended December 31,		
	2003	**2004**	**2004**
	(NIS in thousands)		($ in thousands)
Revenues from sales and services...........	796,059	615,057	142,771
Operating earnings (loss)........................	3,158	(64,491)	(14,970)

Revenues from sales and services from our telecommunication equipment business decreased 22.7% in 2004 to NIS 615 million from NIS 796 million in 2003. The decrease was primarily due to a decrease of NIS 186 million in sales of Telrad, continuing the decline in orders for new telecommunications equipment that Telrad has experienced over the past few years. Telrad's decrease in sales was partially offset by an increase of NIS 18 million in sales of Microwave Networks Inc., a U.S. subsidiary.

Sales from our telecommunication equipment business attributable to sales of telecommunication equipment to Nortel were NIS 232 million in 2004 compared to NIS 440 million in 2003, or 38% compared to 42% of total telecommunication equipment business sales in 2004 and 2003, respectively.

Telecommunication equipment business exports amounted to NIS 570 million in 2004 compared to NIS 722 million in 2003. The decrease in export sales resulted from Telrad.

Operating loss from our telecommunication equipment business was NIS 64 million in 2004 compared to operating earnings of NIS 3 million in 2003. The operating loss in 2004 resulted from the decrease in Telrad's sales.

Defense Electronics Business

	Year Ended December 31,		
	2003	**2004**	**2004**
	(NIS in thousands)		($ in thousands)
Revenues from sales and services...........	1,286,432	1,165,998	270,659
Operating earnings (loss)	(4,294)	30,865	7,164

Revenues from sales and services from our defense electronics business decreased 9.4% to NIS 1,166 million in 2004 from NIS 1,286 million in 2003 primarily as a result of a major reduction in the Israeli defense budget, as well as a lag in new orders and delays by subcontractors.

Operating earnings from our defense electronics business amounted to NIS 31 million compared to operating loss of NIS 4 million in 2003 primarily as a result of reduction of costs due to implementation of efficiency measures in 2003.

Agrochemicals Business

	Year Ended December 31,		
	2003	**2004**	**2004**
	(NIS in thousands)		($ in thousands)
Revenues from sales and services...........	5,191,913	6,895,238	1,600,566
Operating earnings.................................	949,290	1,312,534	304,674

Revenues from sales and services from our agrochemicals business increased 32.8% to NIS 6,895 million in 2004 from NIS 5,192 million in 2003, as a result of increased sales of the MA group (see below). Approximately 93.3% and 92.7% of the sales in 2004 and 2003, respectively, were made outside of Israel.

The increase in the MA group's sales was primarily attributable to the consolidation of newly acquired subsidiaries, sales of new products, increased sales of existing products (mainly in Brazil), as well as the strengthening of the Euro against the dollar.

Operating earnings from our agrochemicals business increased 38.3% to NIS 1,313 million in 2004 from NIS 949 million in 2003 as a result of increased sales and, to a lesser extent, as a result of the strengthening of primary trading currencies against the Dollar partially offset by an increase in raw material costs.

As of January 1, 2005 MA Industries will no longer be consolidated in our financial statements, but will be accounted for according to the equity basis. See Note 27(4) to the consolidated financial statements included elsewhere in this annual report.

Venture Capital Business

	Year Ended December 31,		
	2003	**2004**	**2004**
	(NIS in thousands)		($ in thousands)
Revenues from sales and services	--	--	--
Operating loss...	(1,445)	(1,457)	(338)

This segment was established for the first time in 2000, when we established the Koor Corporate Venture Capital Partnership, or Koor CVC. As of December 31, 2004, the book value of Koor CVC's investments in its start-up companies, a venture capital fund and Scopus Network Technologies, or Scopus, in which Koor CVC holds a 27% interest on a fully-diluted basis, totaled approximately NIS 181 million ($42 million). During 2004, Koor CVC recorded NIS 58 million of provisions for the decline in value of several of its portfolio companies. This expense was recorded in our consolidated financial statements under the caption "Other income (expenses), net".

In 2004, Koor CVC received approximately $8.8 million in proceeds from the sale of its holdings in its portfolio companies Riverhead Networks and Envara. The gain to Koor CVC was NIS 17 million which was recorded in our consolidated financial statements under the caption "Other income (expenses), net".

Other Businesses

	Year Ended December 31,		
	2003	**2004**	**2004**
	(NIS in thousands)		($ in thousands)
Revenues from sales and services	416,026	552,380	128,222
Operating earnings (loss)........................	(21,536)	8,030	1,864

Revenues from sales and services from our other businesses increased 32.8% to NIS 552 million in 2004 from NIS 416 million in 2003. This increase was primarily attributable to the increase in sales of Sheraton Moriah as a result of the increase in tourism to Israel, as well as the increase in the sales of Isram.

Operating earnings from other businesses were NIS 8 million in 2004, compared to operating loss of NIS 22 million in 2003, mainly due to the increase in sales of Sheraton Moriah.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

The following is an analysis of our consolidated results of operations, followed by an analysis of the results of operations of each of our businesses.

Revenues from sales and services. Revenues from sales and services increased 8.3% to NIS 7,690 million in 2003 from NIS 7,100 million in 2002. The increase consists of a NIS 1,051 million increase in MA Industries' revenues and a NIS 42 million increase in Telrad's revenues, which were partially offset by decreases in the revenues of the Elisra Group (NIS 401 million), Tadiran Electronic (NIS 68 million) and Sheraton Moriah (NIS 27 million).

Export and international operations, representing 87% of our net revenues, increased 20.1% in 2003 compared to 2002, primarily as a result of a NIS 1,015 million increase in MA Industries' exports due to improved prices of agricultural commodities, good weather conditions in North America and Asia and the improving South American economy (mainly Brazil), which were partially offset by harsh weather conditions in Europe, the increasing market share of genetically-engineered seeds and the strengthening of most currencies against the dollar. The increase in exports was also partially offset by a NIS 296 million decline in Elisra's exports.

Gross profit. Gross profit increased 28.8% to NIS 2,297 million in 2003 from NIS 1,784 million in 2002. The increase in gross profit is primarily attributable to improved profits at MA Industries (NIS 450 million) and Telrad (NIS 180 million), which were partially offset by a decline in the gross profit of Elisra (NIS 109 million). As a percentage of revenues, gross profit increased from 25.1% in 2002 to 30.0% in 2003.

Operating earnings. Operating earnings increased 86.8% to NIS 896 million in 2003 from NIS 480 million in 2002. The increase in operating earnings is mainly due to an increase in the operating earnings of MA Industries (NIS 291 million) and Telrad (NIS 166 million), partially offset by a decline in the operating earnings of Elisra (NIS 77 million). As a percentage of revenues, operating earnings increased from 6.8% in 2002 to 12.0% in 2003.

Financing expenses, net. Financing expenses, net decreased 44.1% to NIS 228 million in 2003 from NIS 408 million in 2002. The decrease in financing expenses in 2003 is primarily attributable to the repayment of debt, primarily at the parent company level, the depreciation of the dollar against the NIS and a negative CPI.

The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in against the dollar. During 2003, the shekel was strengthened against the dollar by 7.6% while the CPI decreased by 1.9%, compared to 2002, during which there had been a devaluation of 7.3% of the shekel against the dollar while the CPI increased by 6.5%.

Other income (expenses), net. Other expenses, net, amounted to NIS 220 million in 2003 compared to other income, net of NIS 6 million in 2002. Other expenses, net, in 2003 included:

An NIS 33 million capital gain following the sale of investments, mainly at Telrad and our sale of 2.6% of our equity interest in MA Industries. In 2002 we recorded a capital gain of NIS

342 primarily resulting from the sale of 30% of Elisra's shares to Elta and the partial sale of Tadiran's real-estate;

- A NIS 107 million impairment of investments and assets, which includes an NIS 72 million impairment of Koor CVC's investments. In 2002, we recorded an NIS 165 million impairment in the value of investments and assets, including a NIS 93 million impairment of Koor CVC's investments and an NIS 35 million charge following the impairment of BVR Systems' goodwill;
- A NIS 28 million provision for severance compensation, primarily at MA Industries (NIS 9 million) and Elisra (NIS 9 million), compared to a NIS 127 million provision in 2002; and
- A NIS 119 million goodwill amortization and write-off, primarily at MA Industries (NIS 112 million) and Elisra (NIS 4 million), compared to a NIS 91 million write-off in 2002.

Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation. As a result of the liquidation of Tadiran in March 2002, we recorded an expense of approximately NIS 391 million due to the recognition of the cumulative foreign currency translation adjustments to the value of our investment in Tadiran. We recorded this expense, which was previously reflected as a decrease in shareholders' equity, in accordance with Israeli GAAP, which provides that changes in the value of investments in subsidiaries as a result of foreign currency adjustments are not recognized until the sale or liquidation of the subsidiary. This accounting entry did not have any effect on our net equity.

Income tax. Income tax decreased 40% to NIS 85 million in 2003 from NIS 141 million in 2002. The decrease is primarily attributable to a NIS 58 million decline in Telrad's tax expense, a NIS 53 million decline in our tax expense at the corporate parent level due to deferred tax from the sale of shares of MA Industries, and a NIS 31 million decline in Elisra's tax expense. These declines were partially offset by a NIS 60 million increase in MA Industries' tax expense. Income tax as a percentage of revenues in 2003 and 2002 was 1.1% and 2.0%, respectively.

Group's equity in the operating results of affiliates, net. The Group's equity in the losses of affiliates, net in 2003 totaled NIS 114 million compared with NIS 252 million in 2002. This item includes mainly our equity share in the net loss of ECI, in the amount of NIS 101 million (partially offset by a reversal of a NIS 73 million write-down of our investment in ECI), compared with NIS 246 million in 2002 (including a NIS 25 million write-down of our investment in ECI), as well as our equity share in the losses of Knafaim, in the amount of NIS 11 million in 2003, compared with insignificant amount in 2002.

Minority interest in consolidated companies' results, net. Minority interest in consolidated companies' results, net amounted to NIS 203 million in 2003 compared with NIS 60 million in 2002. The increase in minority interest in 2003 derives mainly from MA Industries (NIS 122 million), Elisra (NIS 13 million) and Sheraton Moriah (NIS 12 million).

Net earnings (loss). As a result of the above factors, we reported net earnings of NIS 46 million in 2003, compared to a net loss of NIS 767 million in 2002.

Telecommunications Equipment Business

	Year Ended December 31,		
	2002	2003	2003
	(Adjusted NIS in thousands)		($ in thousands)
Revenues from sales and services	814,108	796,059	184,786
Operating earnings (loss)	(178,623)	3,158	733

Revenues from sales and services from our telecommunication equipment business decreased 2.2% in 2003 to NIS 796 million from NIS 814 million in 2002. The decrease was primarily due to a decrease in sales of MNI, a subsidiary of TEI, by approximately $13.1 million (NIS 57 million) in 2003 compared to 2002, primarily as a result of decreased demand for its products, which was only partially offset by an increase in Telrad's sales by NIS 42 million in 2003 compared to 2002, primarily as a result of a sale of $30 million in South America.

Sales from our telecommunication equipment business attributable to sales of telecommunication equipment to Nortel were NIS 440 million in 2003 compared to NIS 423 million in 2002, or 55% compared to 52% of total telecommunication equipment business sales in 2003 and 2002, respectively.

Telecommunication equipment business exports amounted to NIS 722 million in 2003 compared to NIS 696 million in 2002. The increase in export sales resulted primarily in Telrad for the reasons discussed above.

Operating earnings (loss) in our telecommunication equipment business improved from a NIS 179 million operating loss in 2002 to operating earnings of NIS 3 million in 2003. The improvement resulted from the increase in sales at Telrad combined with its significant cost reductions following its successful reorganization.

Defense Electronics Business

	Year Ended December 31,		
	2002	2003	2003
	(Adjusted NIS in thousands)		($ in thousands)
Revenues from sales and services	1,687,551	1,286,432	298,615
Operating earnings (loss)	78,853	(4,294)	(997)

Revenues from sales and services from our defense electronics business decreased 23.8% to NIS 1,286 million in 2003 from NIS 1,688 million in 2002 primarily as a result of a major reduction in the Israeli defense budget. Sales from our defense electronics business were also affected by BVR whose results were not consolidated since June 2003 subsequent to the sale of the company, and were consolidated for the entire year in 2002, and which accounted for approximately NIS 123 million in sales in 2002.

Operating earnings (loss) from our defense electronics business decreased to operating losses of NIS 4 million in 2003 from operating earnings of NIS 79 million in 2002 primarily as a result of decrease in sales.

Agrochemicals Business

	Year Ended December 31,		
	2002	**2003**	**2003**
	(Adjusted NIS in thousands)		($ in thousands)
Revenues from sales and services...........	4,140,471	5,191,913	1,205,179
Operating earnings.................................	658,507	949,290	220,355

Revenues from sales and services from our agrochemicals business increased 25.4% to NIS 5,192 million in 2003 from NIS 4,140 million in 2002, primarily as a result of increased sales of the MA group (see below). Approximately 92.7% and 90.9% of the sales in 2003 and 2002, respectively, were made outside of Israel, and approximately 26.2% and 27.9% of total sales in 2003 and 2002, respectively, were to South America.

The increase in the MA group's sales was primarily attributable to sales of new products, and increases in sales of existing products, as well as improved prices of agricultural commodities, good weather conditions in North America and Asia and the improving South American economy (mainly Brazil). These positive effects were partially offset by harsh weather conditions in Europe, the increasing market share of genetically-engineered seeds and the strengthening of most currencies against the dollar.

Operating earnings for our agrochemicals business increased 44.2% to NIS 949 million in 2003 from NIS 659 million in 2002 as a result of increased sales and the reduction of manufacturing expenses as a result of internal restructuring and a decrease in raw material costs.

Venture Capital Business

	Year Ended December 31,		
	2002	**2003**	**2003**
	(Adjusted NIS in thousands)		($ in thousands)
Revenues from sales and services	--	--	--
Operating loss...	(7,894)	(1,445)	(335)

This segment was established for the first time in 2000, when we established the Koor Corporate Venture Capital Partnership, or Koor CVC. As of December 31, 2003, the book value of Koor CVC's investments in its start-up companies, a venture capital fund and Scopus Network Technologies, or Scopus, in which Koor CVC holds a 27% interest on a fully-diluted basis, totaled approximately NIS 231 million ($54 million).

The decrease in operating loss in our venture capital business in 2003 compared to 2002 resulted primarily from a reduction in Koor CVC's operating expenses.

Other Businesses

	Year Ended December 31,		
	2002	**2003**	**2003**
	(Adjusted NIS in thousands)		($ in thousands)
Revenues from sales and services	457,660	416,026	96,571
Operating loss...	(32,062)	(21,536)	(4,999)

Revenues from sales and services from our other businesses decreased 9.1% to NIS 416 million in 2003 from NIS 458 million in 2002. This decrease was primarily attributable to the decline in sales of Sheraton Moriah as a result of the sharp decline of tourism in Israel due to increased hostilities in the West Bank and Gaza.

Operating loss of our other businesses was NIS 22 million in 2003 compared to NIS 32 million in 2002, primarily due to the decrease in sales of Sheraton Moriah.

Quarterly Results

The following table presents unaudited quarterly financial information for each of the four quarters of the year ended December 31, 2004. Such information has been prepared on the same basis as our consolidated financial statements.

	Quarter Ended				Year Ended
	March 31, 2004	**June 30, 2004**	**September 30, 2004**	**December 31, 2004**	**December 31, 2004**
	(in millions of NIS)				
Revenues from sales and services	2,400	2,227	2,202	2,400	9,229
Gross profit	780	686	708	767	2,941
Research and development, net .	49	54	53	56	212
Operating earnings	372	289	290	292	1,243
Net earnings	94	20	14	17	145

Our operating results may be subject to significant fluctuations in future periods. Our operating results for any particular quarter are not necessarily indicative of any future results. Our quarterly operating results may be subject to significant fluctuations due to various factors, including the length of the sale cycles, the timing and size of orders and shipments to customers, variations in distribution channels, mix of products, new product introductions, competitive pressures and general economic conditions.

Recent Developments

Koor Industries Ltd.

On February 3, 2005, we sold 15.9 million shares of MA Industries to Merrill Lynch International for approximately NIS 374 million. The sale generated a capital gain, before tax, of approximately NIS 201 million in the first quarter of 2005. Additionally, as a result of the sale, we utilized a deferred tax asset of approximately NIS 69 million that had been created in 2004, because of expectations to utilize carryforward tax losses. Under the terms of the sale, we undertook not to sell additional shares of MA Industries for a nine-month period from the date of sale. As a result of this sale, and following the issuance by MA Industries of additional shares upon the conversion of convertible securities and the exercise of employee stock options, our ownership percentage in MA Industries decreased to 34% as of March 31, 2005 (28.6% on a fully diluted basis).

Following the sale of the shares in February 2005, we evaluated the implication for continuing to consolidate MA Industries in our financial statements, beginning from the first quarter of 2005. Based on an evaluation of the range of circumstances created as a result of the February 2005 sale, we decided that continuation of the consolidation of MA Industries is not consistent with the economic substance. Therefore, beginning from the first quarter of 2005, the consolidation of MA Industries in our financial statements was discontinued, and our investment in MA Industries is accounted for according to the equity method.

On April 10, 2005, as part of a private placement to Israeli institutional investors, we issued NIS 400 million in aggregate principal amount of debentures for NIS 400 million in cash, as well as 800,000 options without consideration. The debentures bear annual interest at a rate of 3.75%, linked to the CPI, which is paid on April 30 and October 31 of each year. The debentures are required to be repaid in a balloon payment on April 30, 2010. Each of the 800,000 options we issued in this transaction is exercisable for one of our ordinary shares at an exercise price of NIS 300 and expires on April 30, 2010. We intend to register the ordinary shares we issue upon the exercise of these options for trading on the Tel-Aviv Stock Exchange.

On April 15, 2005, we sold all the ordinary shares we held in treasury (193,229 shares) to an overseas institutional investor for approximately NIS 50 million.

ECI Telecom

In February 2005, ECI entered into a preliminary agreement to sell all of its long-term receivables to ABN Amro Bank for the sum of approximately $96 million in cash, plus potentially a further amount of approximately $3.3 million. In April 2005, the approvals for the sale were received and the transaction was completed. As a result, during the second quarter of 2005, ECI recognized a net gain of approximately $10.4 million (excluding additional profit resulting from the contingent amount). Our equity in this gain is approximately NIS 14 million.

On June 6, 2005, ECI announced that it completed the acquisition of Laurel Networks, a provider of Next-Generation IP/MPLS Multi-Service Edge Routers, which became ECI's *Data Networking Division*. ECI paid $88 million in cash for Laurel. Laurel had approximately 150 employees, and the company's sales for the twelve months ended April 30, 2005, totaled $18 million.

Effective Corporate Tax Rate

We do not file a consolidated tax return with our subsidiaries, and we are taxed only on our own income. Most of our subsidiaries file their own tax returns, based on their own taxable income. Our income tax obligations and our Israeli subsidiaries' income tax obligations are based on profits determined in nominal NIS for Israeli statutory purposes, adjusted for tax purposes, in terms of end-of-year Israeli currency, in accordance with changes in the CPI. The tax provision in our financial statements does not directly relate to income shown on such statements. See Note 16 to our consolidated financial statements included elsewhere in this annual report for the reconciliation between the theoretical and actual tax expense. Non-Israeli subsidiaries are taxed based upon tax laws in their respective countries of residence. The effective corporate tax rate is affected mainly by tax benefits arising from reduced tax rates applied to approved enterprises, utilization of tax loss carry forwards for which no deferred taxes were recorded, the effect of the Inflationary Adjustment Law on Israeli companies, whose functional currency is the dollar, and the disallowance of provisions for anticipated losses from the sale of assets. In 2004, we had a profit before taxes of NIS 893 million. See Note 16A to our consolidated financial statements included elsewhere in this annual report.

Liquidity and Capital Resources

We finance our corporate level activities principally through the proceeds from divestitures, management fees and dividends we receive from our subsidiaries and affiliates and through debt financing. In 2004 and 2003, we received management fees in the amount of NIS 22 million and of NIS 25 million, respectively. In addition, in 2004 and 2003 we received NIS 135 million and NIS 28 million, respectively, in distributions from subsidiaries and affiliates, of which NIS 68 million and NIS 18 million, respectively, was received from Makhteshim-Agan Industries Ltd., or MA Industries. Of the NIS 135 million in distributions we received in 2004, NIS 67 million was received as a liquidating distribution in respect of our wholly-owned subsidiary, Tadiran Ltd.

Our shareholders' equity at December 31, 2004 increased 7.8% to NIS 1,876 million, compared to NIS 1,740 million at December 31, 2003. The increase in 2004 was primarily due to the increase in our net earnings.

Working capital at December 31, 2004 was NIS 1,086 million compared to NIS 1,046 million at December 31, 2003 and NIS 1,160 million at December 31, 2002.

Long-term debt totaled NIS 3,152 million at December 31, 2004, or 24.0% of total assets on that date, compared to NIS 3,460 million at December 31, 2003, or 29.1% of total assets on that date. See Note 15C(1) to our consolidated financial statements included elsewhere in this annual report.

Total debt at December 31, 2004 decreased 2.9% to NIS 4,891 million, or 37.2% of total assets, compared to NIS 5,038 million, or 42.4% of total assets, at December 31, 2003.

In accordance with several of our financing agreements, we and several of our subsidiaries and affiliates, undertook to maintain certain financial covenants, including minimum shareholders' equity and debt capital, ratio of shareholders' equity to debt capital, and a ban on

creating pledges or furnishing guarantees without the advance consent of the banks providing the financing. We also undertook to use the proceeds from the sale of certain assets to repay a portion of our existing debt. As of December 31, 2004 and June 30, 2005, we and our relevant subsidiaries and affiliates are in compliance with the above covenants. See also Note 18 to our consolidated financial statements included elsewhere in this annual report.

Summary of our Contractual Obligations and Commercial Commitments

For purposes of presenting the approximate cash flows that will be required to meet our material contractual obligations, the following table presents a summary of those obligations, as of December 31, 2004:

	Payments Due by Period *(in millions of NIS)*				
Contractual Obligations	**Total**	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Debt From Banks[1]	3,945	1,736	1,884	235	90
Debentures[1]	811	—	165	-	646
Operating Lease Obligations	133	42	55	9	27
Other Obligations	135	2	38	22	73
Total Contractual Cash Obligations	**5,024**	**1,780**	**2,142**	**266**	**836**

(1) See Note 15 to our financial statements included elsewhere in this annual report for applicable interest rates and linkage bases.

For purposes of presenting the approximate cash flows that will be required to meet our other commercial commitments, the following table presents a summary of those commitments, as of December 31, 2004:

	Amount of Commitment Expiration Per Period *(in millions of NIS)*				
Other Commercial Commitments	**Total Commitment**	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Guarantees[1]	678	138	185	43	312
Commitments for environmental expenditures[2]	172		172		
Commitments for the Purchase of Fixed Assets	22	22	—	—	—
Commitments for investment in Venture Capital Funds[3]	20	15	5	—	—
Total Commercial Commitments	**892**	**175**	**362**	**43**	**312**

(1) Includes: (i) a guarantee Bezeq (Israeli telecommunications company) received from Koor in the amount of NIS 125 million; (ii) a guarantee totaling NIS 172 million issued by Telrad to a major customer; (iii) guarantees in respect of advances received from customers amounting to NIS 266 million; and (iv) guarantees

by us for affiliates and other non-consolidated companies in the amount of approximately NIS 115 million. See Note 22E to our consolidated financial statements included elsewhere in this annual report.

(2) This amount represents MA Industries' estimation of the cost of construction of facilities for the biological treatment of waste pursuant to an agreement with the Ministry of Environmental Protection.

(3) This amount represents Koor CVC's remaining obligation for investment in its portfolio funds, which may be drawn upon by the funds over the next 1-3 years, based on their needs.

Cash Flows

Cash and cash equivalents increased by NIS 24 million in 2004 compared to 2003.

Cash flows from operating activities in 2004 were NIS 891 million, compared to NIS 775 million in 2003. The increase in cash flows from operating activities stems mainly from net earnings of NIS 145 million in 2004 compared to NIS 46 million in 2003.

Cash flows used in investment activities in 2004 were NIS 723 million, compared to cash generated by investment activities of NIS 267 million in 2003. Cash used for the acquisition of subsidiaries (mainly by MA Industries) and affiliates (mainly the acquisition of Tadiran Communications) was NIS 946 million, compared to NIS 21 million in 2003. Proceeds from sale of investee companies (mainly the sale of shares of MA Industries) and proceeds from sale of subsidiary's shares that became proportionately consolidated (Telrad) were NIS 636 million and NIS 38 million respectively, compared to NIS 124 million in 2003. The investment in fixed assets, net after deduction of investment grants, amounted to NIS 225 million, compared to NIS 185 million in 2003. The principal investments in fixed assets in the reporting period were in MA Industries. Investment in intangible assets amounted to NIS 153 million in 2004, compared to NIS 313 million in 2003, mainly as a result of investments by MA Industries. Investments in venture capital companies amounted to NIS 35 million, compared to NIS 14 million last year. Furthermore, in 2003, cash generated by repayment of loans by affiliates and by the decrease in short-term deposits and investments amounted to a total of NIS 653 million, compared to a negligible amount in 2004.

Financing activities during 2004 consumed NIS 128 million, compared to NIS 1,210 million during 2003. Long-term loans received in 2004 amounted to NIS 1,063 million, compared to NIS 949 million in 2003. The loans were received mainly at Koor (the parent company). Repayment of long-term loans in 2004 amounted to NIS 1,791 million compared to NIS 1,892 million in 2003. Loans were repaid mainly at Koor (the parent company) and MA Industries. Proceeds from issuance of convertible debentures by MA Industries amounted to NIS 666 million in 2004.

Short-term credit, net, increased by NIS 26 million in 2004, compared to a decrease of NIS 268 million in 2003.

Impact of Inflation and Currency Fluctuations

The dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a

devaluation of the NIS in relation to the dollar. The inflation rate in Israel was 1.2 % in 2004 as compared to -1.9% in 2003. At the same time, the appreciation of the NIS against the dollar was 1.6% in 2004 as compared to 7.6% in 2003. The increase in the dollar cost of our operations in Israel relates primarily to the cost of salaries in Israel, which are paid in NIS, and constitutes a substantial portion of our expenses.

Trend Information

Our financial condition and results of operation may be subject to significant fluctuations in future periods. Our past financial condition and results of operation are not necessarily indicative of any future results. Our future financial condition and results of operation may be subject to significant fluctuations due to various factors, including the divestiture of subsidiaries or other companies, the length of the sale cycles, the timing and size of orders and shipments to customers, variations in distribution channels, mix of products, new product introductions, competitive pressures and general economic conditions.

Off-Balance Sheet Arrangements

The only off-balance sheet arrangements we have that are reasonably likely to have a material effect on our financial condition, operating results, liquidity or capital resources are the guarantees and commitments described above under “Liquidity and Capital Resources — Summary of our Contractual Obligations and Commercial Commitments.”

Item 6. Directors, Senior Management and Employees.

Directors and Senior Management

The following table sets forth, as of June 20, 2005, the name, age and position of each of our directors and executive officers:

Name	Age	Position
Charles R. Bronfman	75	Chairman of the Board of Directors
Rolando Eisen(1)(2)(3)	64	Director
Paulette Eitan(1)(2)(4)	60	Director
Ron Feinstein(1)	68	Director
Andrew Hauptman(3)	37	Director
Chemi Peres	48	Director
Dan Propper(3)	64	Director
David Rubner	66	Director
Prof. Gabriela Shalev(1)(3)	64	Director
Jonathan B. Kolber	44	Chief Executive Officer
Danny Biran	63	President
Yuval Yanai(5)	54	Senior Vice President and Chief Financial Officer
Aaron Zuker	60	Vice President
Shlomo Heller	62	General Counsel and Corporate Secretary

(1) Member of the Audit Committee.
(2) External director. Under the Israeli Companies Law, 1999, publicly held companies in Israel are required to appoint at least two "external directors" who serve for three-year terms, as described below. Our external directors were appointed in June 2002 and pursuant to the Companies Law, their terms expired on June 24, 2005. At our annual general meeting of shareholders held on July 3, 2005, our shareholders voted to re-appoint our external directors for a second term of three years.
(3) Member of the Remuneration Committee.
(4) Serves as the Audit Committee Financial Expert.
(5) On May 24, 2005, Mr. Yanai announced his intention to resign from office in August 2005.

Set forth below is a biographical summary of each of our above-named directors and executive officers.

Charles R. Bronfman has been Chairman of the Board of Directors of Koor since November 1997. Mr. Bronfman is Chairman of the Board of Directors of Claridge Israel L.L.C., Chairman of Andrea and Charles Bronfman Philanthropies Inc., Co-Chairman of Birthright Israel International and Co-Chairman of the Board of Trustees, McGill Institute For the Study of Canada. Mr. Bronfman is a former Co-Chairman of the Seagram Company Ltd. and a former Chairman of the United Jewish Communities.

Rolando Eisen has been an external director of Koor since June 2002. Mr. Eisen serves as a board member in several companies, including Mercantile Discount Bank Ltd., I.D.B. Holdings Ltd. (external director) and Healthcare Technologies Ltd. which is traded on NASDAQ. Mr. Eisen is a co-founder and a Managing Director of Rim Industries Ltd. Mr. Eisen has a B.Sc. in Industrial Management from Carnegie Mellon University. Mr. Eisen is an Israeli citizen.

Paulette Eitan has been an external director of Koor since June 2002. Ms. Eitan is the Managing Director of Paulette Eitan, Business Planning Services Ltd., a management consulting firm focusing on business strategy, performance, monitoring and management incentive programs, mostly for Israeli high-tech and multinational companies. Ms. Eitan also serves as a board member of Ham-Let Israel Canada Ltd. (external director). Ms. Eitan has an M.B.A. from Tel Aviv University and a B.Sc. in Economics and Business from HEC-Paris. Ms. Eitan is an Israeli citizen.

Ron Feinstein has been a director of Koor since October 1991. Since 1999, Mr. Feinstein has served as a Chairman of the Board of Directors of Sheraton Moriah Israel Ltd. From 1996 until 1998, Mr. Feinstein served as a Chairman of the Board of Radisson Moriah Hotels Ltd. Between 1992 and 1998, Mr. Feinstein also served as the Chairman of the Board of Tourist Industry Development Corporation Ltd. Mr. Feinstein was a partner in the law firm of Glass, Feinstein and Bar-Sela from 1981 through March 1997 and since then he is a senior partner in the law office and notary of Feinstein and Feinstein. Mr. Feinstein is presently a member of the Board of Directors of Migdal Insurance Corp. and the Chairman of the Board of Directors of Am-Oved Publishers Ltd.

Andrew Hauptman has been a director of Koor since November 1997. Mr. Hauptman is the Co-Chairman and Chief Executive Officer of Andell Holdings LLC, a private investment firm. Mr. Hauptman serves on the Board of Directors of several privately held and publicly traded companies, including Elizabeth Arden Spas LLC, Dick Clark Productions Inc. and Canyon Ranch Holdings LLC. Mr. Hauptman also serves as the Chairman of the Board of Storage Mobility LLC, as well as Andell Entertainment LLC and Mission Pictures LLC. In addition, Mr. Hauptman serves on the Board of Trustees of the Los Angeles County Museum of Art, the Zoe Saidye Hauptman Memorial Fund and The Hauptman Family Foundation. Prior to joining Andell Holdings LLC, Mr. Hauptman worked in restructuring and mergers and acquisitions with Alex. Brown & Sons in New York and served as a Director of Business Development and Strategic Planning at Universal Studios Holdings (UK) Ltd. Mr. Hauptman holds an M.B.A. from Harvard University and a B.A. in History from Yale University. Mr. Hauptman is the son-in-law of Charles R. Bronfman, our Chairman of the Board.

Chemi Peres has been a director of Koor since June 2000. Mr. Peres is a co-founder and Managing Director of Pitango Venture Capital, an Israeli venture capital fund. In 1992, Mr. Peres founded and managed the Mofet Israel Technology Fund, a venture capital fund publicly traded on the Tel Aviv Stock Exchange. Prior to founding Mofet, Mr. Peres served as Vice President of Marketing and Business Development at Decision Systems Israel Ltd, and as a Senior Consultant to Israel Aircraft Industries Ltd. Mr. Peres currently serves on the board of several Pitango portfolio companies, including Go Networks Ltd., Mercado Software Ltd., Provigent Ltd., Radwin Ltd. and Voltaire Ltd.. Mr. Peres also serves as a board member of the Israel Venture Association, the Ministry of Industry, the Trade Seed Fund and the Weizman

Institute of Science. Mr. Peres holds an M.B.A. and a B.Sc. in Industrial Engineering and Management from Tel Aviv University.

Dan Propper is the Chairman and Chief Executive Officer of the Osem Group of Companies, one of Israel's leading food manufacturers and a public company traded on the Tel Aviv Stock Exchange. Mr. Proper is a member of the boards of various industrial companies as well as the Technion, Israel Institute of Technology, the Weizman Institute of Science and Ben-Gurion University. Mr. Propper graduated *summa cum laude* from the Technion with a degree in chemical engineering and food technology. In 1999, he received an honorary doctorate from the Technion for his contribution to Israeli industry and economy.

David Rubner has been a director of Koor since June 2000. Mr. Rubner is the Chairman and Chief Executive Officer of Rubner Technology Ventures Ltd. and a partner in Hyperion Israel Advisors Ltd., a venture capital firm. Mr. Rubner was employed by ECI from 1970 until February 2000, and served as its President and Chief Executive Officer from 1991 to October 1999 and February 2000, respectively. Mr. Rubner serves on the board of directors of Chekpoint Software Ltd., Elbit Imaging Ltd. and Lipman Electronic Engineering Ltd., as well as several privately held companies. Mr. Rubner also serves on the board of trustees of Bar-Ilan University and Shaare Zedek Hospital. Mr. Rubner holds a B.Sc. in Engineering from Queen Mary College, University of London and a M.Sc. degree from Carnegie Mellon University..

Prof. Gabriela Shalev has been a director of Koor since February 1999. Prof. Shalev is the President and Rector of Ono Academic College. Prof. Shalev also serves on the board of directors of several other companies, including Teva Pharmaceutical Industries Ltd. and Osem Ltd.

Jonathan B. Kolber has been Chief Executive Officer of Koor since July 1, 1998. Mr. Kolber served as the Vice Chairman of the Board of Directors of Koor from November 1997 until he resigned from the Board on March 26, 2003. Mr. Kolber served as President of Claridge Israel Ltd. from 1989 to 2001 and as Vice President of Claridge Inc. from 1986 to 1990. Mr. Kolber was associated with Cemp Investments from 1985 to 1987. Mr. Kolber serves as a director of several Israeli companies, including ECI Telecom Ltd., MA Industries, Telrad, Knafaim-Arkia. and Sheraton-Moriah. Mr. Kolber has a B.A. in Near Eastern Languages and Civilizations from Harvard University and a Certificate on Advanced Arabic from the American University of Cairo.

Danny Biran has been President of Koor since July 1, 1998. Mr. Biran currently serves as Chairman of the Board and Chief Executive Officer of Elisra Electronic Systems Ltd. and as Chairman of the Board of A Industries, Isrex (94) Ltd., Koor Trade, R.M. Renaissance Management (1993) Ltd., Tadiran Electronic, Tadiran Spectralink and Dekolink Wireless Ltd. Mr. Biran is also a director of ECI and Sheraton-Moriah. Mr. Biran is a graduate of the Law faculty of the Tel Aviv University and a member of the Israeli Bar.

Yuval Yanai has been Senior Vice President and Chief Financial Officer of Koor since October 1, 2000. He served as Senior Vice President and Chief Financial Officer of NICE Systems Ltd. from April 1998 to September 2000. From 1991 to April 1998, he was the Vice President, Finance and Chief Financial Officer of Elscint Ltd. and director of several of Elscint's

subsidiaries, as well as a director of certain public and private companies. He joined Elscint in 1985 and served as Corporate Controller and Corporate Treasurer through 1991. Mr. Yanai is a director of MA Industries, Tadiran Communication, Elisra, Tadiran Electronic, Tadiran Spectralink and Telrad. Mr. Yanai holds a B.Sc. in Accounting and Economics from the Tel Aviv University. As described above, on May 24, 2005, Mr. Yanai announced his intention to resign from office in August 2005.

Aaron Zuker has been a Vice President of Koor since January 1999. He serves as Managing Director of R.M. Renaissance Management (1993) Ltd. Mr. Zuker is a director of MA Industries, Elisra, Tadiran Electronic and Tadiran Spectralink. Mr. Zuker is also a director of Isrex (94) Ltd., Clalcom Ltd. and Barak ITC (1995). Between the years 1990 - 1995, Mr. Zuker served as Chief Financial Officer and then Chief Executive Officer of The Jerusalem Report Publication.

Shlomo Heller has been General Counsel and Corporate Secretary of Koor since August 1997. From 1990 to 1997, Mr. Heller served as the General Counsel of United Mizrahi Bank Ltd. Mr. Heller also serves as a director of several other companies within Koor.

Compensation

The aggregate compensation paid to or accrued on behalf of all our directors and executive officers as a group (15 persons) during 2004 consisted of approximately $2.75 million, in salaries, fees, bonuses, commissions and directors' fees and $0.6 million in amounts set aside or accrued to provide pension, retirement or similar benefits, excluding expenses (including business travel, professional and business association dues and expenses) reimbursed to officers and other fringe benefits commonly reimbursed or paid to such officers and directors by companies in Israel.

The directors associated with Claridge Israel L.L.C. (two directors in 2004) assigned their directors' compensation to Claridge Israel L.L.C. These directors received compensation identical to that received by our other directors. All of our directors received compensation identical to that received by our external directors as described below.

Compensation and reimbursement for external directors (as described below) is statutorily determined pursuant to a formula stated by the Israeli Companies Law, 1999, which became effective on February 1, 2000, and which we refer to in this annual report as the Companies Law, and we adopted the highest compensation payable pursuant to the formula. Compensation and reimbursement of all other directors who do not serve as officers are the same as the statutory rates paid to external directors pursuant to a decision of our shareholders at our annual general meeting. For additional information concerning the compensation of directors, see Note 25C to our consolidated financial statements included elsewhere in this annual report.

In addition, according to decisions of our shareholders at the annual general meetings of shareholders held on July 23, 2003, and September 12, 2004, eight directors (including the external directors) who are not associated with Claridge Israel L.L.C. or with Esarbee Investments Limited and who are not related to the controlling shareholders, have each been

granted 50,000 options under the 2003 Stock Option Plan which is described below. One of these directors has since resigned.

We have not entered into any service contracts with our directors that provide for benefits upon termination of employment.

Board Practices

Composition of Board; Election of Directors

Pursuant to our articles of association, the number of directors serving on the board is required to be not less than five. The appointment of members to the board of directors, their replacement and removal, and the appointment of the chairman of the board of directors requires approval by our shareholders by ordinary resolution. Each member of the board of directors remains in office until his/her office is vacated due to any one of the following events: death, legal incompetency, bankruptcy, resignation or removal at a shareholders meeting. Our chief executive officer is appointed by the board of directors. Our executive officers serve at the discretion of our chief executive officer pursuant to powers delegated to him by our board of directors.

The board may appoint committees of the board and delegate to such committees the powers of the board as it deems appropriate, unless the Companies Law restricts it. Notwithstanding the foregoing, the board may, from time to time, revoke the delegation made to a committee of its powers and authorities or a portion thereof. The board has appointed an Audit Committee and a Remuneration Committee.

External Directors; Independent Directors

Israeli Companies Law Requirements

Under the Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public inside or outside of Israel are required to appoint at least two "external directors". The Companies' Law provides that a person may not be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control, has, as of the date of the person's appointment to serve as an external director, or had during the two years preceding that date, any affiliation with us or any entity controlling, controlled by or under common control with us. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

No person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an

external director or may otherwise interfere with the person's ability to serve as an external director.

Under a recent amendment to the Companies Law, at least one of the external directors is required to have "financial and accounting expertise" and the other external directors are required to have "professional expertise". These requirements are subject to regulations to be promulgated in which the terms "financial and accounting expertise" and "professional expertise" would be defined.

External directors are to be elected by majority vote at a shareholders' meeting, provided that either:

(1) The majority of shares voted at the meeting, including at least one-third of the shares of the non-controlling shareholders voted at the meeting, vote in favor of election of the director; or

(2) The total number of shares of non-controlling shareholders voted against the election of the director does not exceed one percent of the aggregate voting rights.

The initial term of an external director is three years and may be extended for an additional three years. Both of our external directors are members of our audit committee and one of them is a member of our remuneration committee.

An external director is entitled to compensation as provided in the regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service provided as an external director.

New York Stock Exchange Requirements

Our ADSs are listed on the New York Stock Exchange, or NYSE, and we are subject to the rules of the NYSE applicable to listed companies. Under the current NYSE rules, we are required to have an audit committee consisting of at least three directors, all of who must be independent. The independence standard under the NYSE rules generally excludes (1) any person who is an employee of a company or its affiliates or any person who is an immediate family member of an executive officer of a company or its affiliates, until the lapse of three years from the termination of such employment, (2) any person who is a partner, controlling shareholder or executive officer of an organization that has a business relationship with a company or who has a direct business relationship with a company, unless the board of directors of the company determines that the business relationship does not interfere with such person's independent judgment, or unless three years have lapsed from the termination of such relationship or his status as a partner, controlling shareholder or executive officer, and (3) any person who is employed as an executive of another corporation where any of the company's executives serves on that corporation's compensation committee. See " - Audit Committee - New York Stock Exchange Requirements" for a description of the NYSE rules that become effective with respect to Koor on July 31, 2005.

Audit Committee

Israeli Companies Law Requirements

The Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee under the Companies Law include identifying irregularities in the management of our business and approving related party transactions as required by law. The audit committee is also responsible for recommending to our shareholders the appointment of our external auditors, for approval of the amounts to be paid to our external auditors and for assisting our board of directors in overseeing the work of our external auditors. The audit committee has also adopted procedures for handling complaints regarding accounting and auditing matters, including anonymous and confidential methods for addressing concerns raised by employees. Under the Companies Law, an audit committee must consist of at least three directors, including at least two external directors. The chairman of the board of directors, any director employed by or otherwise providing services to us, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the audit committee.

New York Stock Exchange Requirements

Under the current NYSE rules, we are required to maintain an audit committee consisting of independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Our audit committee complies with these requirements. The responsibilities of the audit committee under the NYSE rules include evaluating the independence of a company's outside auditors.

Pursuant to the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission, or SEC, issued new rules which, among other things, require the NYSE to impose independence requirements on each member of the audit committees of listed companies. The NYSE adopted rules that comply with the SEC's requirements and become effective with respect to Koor on July 31, 2005.

The requirements implement two basic criteria for determining independence: (i) audit committee members would be barred from accepting any consulting, advisory or other compensatory fee from the issuer or an affiliate of the issuer, other than in the member's capacity as a member of the board of directors and any board committee, and (ii) audit committee members of an issuer that is not an investment company may not be an "affiliated person" of the issuer or any subsidiary of the issuer apart from his or her capacity as a member of the board and any board committee.

The SEC has defined "affiliate" for non-investment companies as "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified." The term "control" is intended to be consistent with the other definitions of this term under the Securities Exchange Act of 1934, as "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise." A safe harbor has been adopted by the SEC, under which a person who is not an executive officer, director or 10% shareholder of the issuer would be deemed not to have control of the issuer. The

SEC has also provided certain limited exceptions for an audit committee member, who also sits on the board of directors of an affiliate to a listed issuer, so long as, except for being a director on such board of directors, the audit committee member otherwise meets the independence requirements for each entity.

The role of the audit committee for NYSE purposes includes assisting our board of directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and reporting practices.

Remuneration Committee

The remuneration committee is responsible for determining the compensation for all our executive officers, which determinations are subject to approval by our audit committee and board of directors. The remuneration committee is also responsible for setting the annual bonus compensation, on an aggregate basis, for all our employees.

Internal Auditor

Under the Companies Law, the board of directors must appoint an internal auditor, nominated by the audit committee. The role of the internal auditor is to examine, among other matters, whether our actions comply with the law and with orderly business procedure. Under the Companies Law, the internal auditor may be an employee of ours but not an office holder, or an affiliate, or a relative of an office holder or affiliate, and may not be our independent accountant or its representative. We have appointed Mr. Ezra Yehuda , , who is not an employee of ours, as our internal auditor in accordance with the requirements of the Companies Law and his reports are submitted to and reviewed by the Chairman of our board of directors and the audit committee. The audit committee follows up on the implementation of the recommendations of the internal auditor.

Summary of Significant Differences between Koor's Corporate Governance Practices and Those Required of U.S. Companies under NYSE Listing Standards

Section 303A.11 of the NYSE's Listed Company Manual, or LCM, requires that listed foreign private issuers, such as Koor, must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. domestic companies under NYSE listing standards.

Our corporate governance practices are governed by our Articles of Association, by the corporate governance provisions set forth in the Companies Law and by applicable U.S. securities laws, including the Sarbanes-Oxley Act of 2002, to the extent they apply to foreign private issuers. We are also subject to the NYSE corporate governance rules to the extent they apply to foreign private issuers. Except for those specific rules, foreign private issuers are permitted to follow home country practice in lieu of the provisions of Section 303A of the LCM.

In order to comply with Section 303A.11 of the LCM, the following is a summary of significant ways in which our corporate governance practices differ from those required to be followed by U.S. domestic companies under the NYSE's listing standards.

Majority of Independent Directors: Under Section 303A.01 of the LCM, U.S. domestic listed companies must have a majority of independent directors. We do not have a similar requirement under Israeli practice or the Companies Law, however we do have a majority of independent directors serving on our board of directors.

Separate Meetings of Non-Management Directors: Under Section 303A.03 of the LCM, the non-management directors of each U.S. domestic listed company must meet at regularly scheduled executive sessions without management. We do not have a similar requirement under Israeli practice or the Israeli Companies Law, and our independent directors do not meet separately from directors who are not independent, other than in the context of audit committee meetings.

Nominating/Corporate Governance Committee: Under Section 303A.04 of the LCM, a U.S. domestic listed company must have a nominating/corporate governance committee composed entirely of independent directors. We are not required to have such a committee under the Companies Law.

Compensation Committee: Under Section 303A.05 of the LCM, a U.S. domestic listed company must have a compensation committee composed entirely of independent directors. We do have a remuneration committee, which is similar to a compensation committee, although there is no requirement for a compensation committee under Israeli practice or the Companies Law. However, our remuneration committee is composed entirely of independent directors.

Audit Committee: Under Section 303A.06 of the LCM, domestic listed companies are required to have an audit committee that complies with the requirements of Rule 10A-3 of the Securities and Exchange Act of 1934. Rule 10A-3 requires the audit committee of a U.S. company to be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services, and that each such firm must report directly to the audit committee. Among other exceptions, Rule 10A-3 provides an exception to such standards for foreign private issuers where applicable home country law (i) requires or permits shareholders to appoint the auditors or (ii) prohibits or limits the delegation of responsibility to the issuer’s audit committee.

Pursuant to the Companies Law, our auditors are appointed by the shareholders at the annual meeting of shareholders. Our audit committee is responsible for recommending to the shareholders the appointment of our auditors and to recommend the amounts to be paid to our auditors. In addition, pursuant to the Companies Law, our financial statements must be approved by our board of directors. Our audit committee is responsible for assisting the board of directors in overseeing the work of our auditors.

Equity Compensation Plans: Under Section 303A.08 of the LCM, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions as described in the Rule. We intend to follow the requirements of the Companies Law under which requirement for shareholder approval is generally limited to cases where our directors would be entitled to receive equity under the equity-compensation plan.

Corporate governance guidelines: Under Section 303A.09 of the LCM, domestic listed companies must adopt and disclose their corporate governance guidelines. We do not have a similar requirement under Israeli practice or the Companies Law.

Employees

At December 31, 2004, we had 6,559 employees worldwide, which represented an increase of 4% from year-end 2003.

The table below sets forth the number of our employees on a consolidated basis and a break down of their geographic location at the end of each of the last three fiscal years:

	Israel	Latin America	USA	Europe	Others	Total
2002	5,201	1,020	344	257	77	6,899
2003	4,605	993	311	329	90	6,328
2004	4,732	965	369	373	120	6,559

Our future success will depend in part upon our ability to attract and retain highly skilled and qualified personnel. Although competition for such personnel in Israel is generally intense, we believe that adequate personnel resources are currently available in Israel to meet our requirements.

Israeli law generally requires the payment by employers of severance upon the death of an employee, his retirement or upon termination of employment by the employer without due cause. We currently fund our ongoing severance obligations by making monthly payments to approved severance funds or insurance policies. In addition, according to the National Insurance Law, Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, an organization similar to the United States Social Security Administration. These contributions entitle the employees to benefits in periods of unemployment, work injury, maternity leave, disability, reserve military service and bankruptcy or winding-up of the employer. Since January 1, 1995, such amount also includes payments for national health insurance. The payments to the National Insurance Institute are equal to approximately 15.93% of an employee's wages limited to a specified amount, of which the employee contributes approximately 63% and the employer contributes approximately 37%.

We are subject to various Israeli labor laws, collective bargaining agreements, Israeli labor practices, as well as orders extending certain provisions of collective bargaining agreements between the Histadrut (currently the largest labor organization in Israel) and the Coordinating Bureau of Economic Organizations (the federation of employers' organizations). Such laws, agreements and orders have a wide scope, including minimum employment standards (including, among other things, working hours, minimum wages, vacation and severance pay), and special issues, such as equal pay for equal work, equal opportunity in employment, and employment of women, youth and army veterans. According to the National Insurance Law, Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, an organization similar to the United States Social Security Administration. These contributions entitle the employees to benefits during periods of unemployment, work

injury, maternity leave, disability, reserve military service, and bankruptcy or the winding-up of the employer, in addition to health insurance. The National Health Insurance Law 1994 imposes a health tax at a rate of approximately 4.8% of an employee's base wage.

The collective bargaining agreements of our subsidiaries cover a term of one to three years, or are for an indefinite period. Upon expiration of the term of an agreement, and pending negotiations for extension, the provisions of the agreement remain in force unless one of the parties gives a notice of termination or a new collective agreement is entered into which explicitly terminates the previous collective agreements. Management believes that, upon expiration of such existing agreements, its subsidiaries will be able to negotiate, without material disruptions to our businesses, satisfactory new agreements. However, there can be no guarantee that satisfactory agreements will be reached in each subsidiary or that the negotiation of such agreements will not generate material disruptions to our businesses.

Several of our subsidiaries have collective retirement agreements. These agreements are due to expire in 2006. Unlike the collective bargaining agreements, because these agreements have a termination date, the provisions of these agreements will not remain in force in the period between the expiration and the signing of an alternative agreement.

In 2004, our total labor costs (including temporary employees) amounted to approximately NIS 1,484 million, which represented approximately 16.1% of our total net sales, as compared to NIS 1,345 million in 2003. The majority of our labor costs are denominated in NIS and are affected by the periodic changes in the inflation rate in Israel.

Share Ownership

Our directors and executive officers who are deemed to have beneficial ownership of more than 1% of our outstanding ordinary shares are Mr. Charles R. Bronfman, Mr. Andrew Hauptman and Mr. Jonathan Kolber. Mr. Charles R. Bronfman and Mr. Andrew Hauptman are affiliated with Claridge Israel L.L.C., one of our major shareholders, and Mr. Kolber is affiliated with Anfield Ltd. For details of their shareholdings, please see "Item 7. Major Shareholders and Related Party Transactions" and the related footnotes.

As of June 30, 2005, our executive officers, in the aggregate, held 11,787 ordinary shares and options under our stock option plans to purchase up to 386,957 ordinary shares. These options have an exercise price of NIS 95 per share and an expiration date of December 31, 2010.

Employee Benefit Plans

As of June 30, 2005, options granted, or approved for grant, to all our directors and employees to purchase up to 887,228 ordinary shares were outstanding.

The 1997 Stock-Based Compensation Plan

On May 27, 1997, 5,039 stock options were granted under this plan, and on November 6, 1997 another 31,282 stock options were granted. All of the stock options outstanding under this plan were exercised as of June 30, 2005.

The 1998 Stock-Based Compensation Plan

On August 30, 1998, at an extraordinary general meeting of shareholders, our shareholders approved a private placement of 400,000 stock options, free of charge, to our employees. The options are exercisable for up to 400,000 of our ordinary shares. All stock options under the 1998 plan were granted on different dates, and after expiration of some options and exercise of others, 670 options remained outstanding for exercise as of June 30, 2005.

Under the terms of the 1998 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 monetary bonus 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 bonus component (above and hereafter – the "Bonus Component Method").

The options outstanding under the 1998 plan have an exercise price of NIS 101.38 per share and an expiration date of July 16, 2006.

The 2000 Stock-Based Compensation Plan

On August 6, 2000, our board of directors approved the 2000 Stock-Based Compensation Plan, which was previously approved by our audit committee. A framework was approved for the allotment of 400,000 stock options exercisable for up to 400,000 of our ordinary shares, out of which only 165,000 options have been granted, and after expiration of some options and exercise of others, 1,734 options remained outstanding for exercise as of June 30, 2005.

The options are exercisable for shares in a quantity reflecting the amount of the monetary bonus inherent in the options, according to the Bonus Component Method.

The options outstanding under the 2000 plan have an exercise price of NIS 101.38 per share and an expiration date of June 14, 2007.

Pursuant to the terms of the 2000 plan, the remaining 235,000 stock options, which were approved, but were not granted under the plan, expired on June 14, 2005.

The 2003 Stock Based Compensation Plan

On July 27, 2003, at our annual general meeting of shareholders, our shareholders approved the 2003 Stock-Based Compensation Plan, which had been previously approved by our audit committee and by our board of directors, on May 25, 2003 and June 5, 2003, respectively. A framework was approved for the allotment of up to 1,200,000 stock options exercisable for up to 1,200,000 of our ordinary shares, out of which 1,102,903 options have been granted.

The options will be exercised for shares in a quantity reflecting the amount of the financial benefit inherent in the options, according to the Bonus Component Method.

The options are designated for directors and employees who are not related parties and will not become related parties as a result of allotment of the stock options. In any event, the total

number of offerees under Plan 2003 will not exceed 35 offerees, excluding our directors and chief executive officer.

The options will vest gradually over a three-year period from the record date, with one-sixth of the total number of options vesting every six months.

In connection with the approval of the 2003 plan, our shareholders approved the granting a total of 400,000 options out of the total number of options allotted under the 2003 plan to eight directors, including one director who has since resigned (the two directors who are controlling shareholders, directly or indirectly, were not granted any options), divided equally, as well as 175,000 options out of the total number of options allotted under the 2003 plan to our chief executive officer. The balance of the options allotted under the 2003 plan is intended for other employees and officers of the Koor Group.

As of June 30, 2005, 887,228 options to purchase our ordinary shares were outstanding under the 2003 plan, which have an exercise price of NIS 96 per share and an expiration date of December 31, 2010.

Option Plans of Certain Subsidiaries

In April 2001, the board of directors of MA Industries decided to distribute options to employees of MA Industries and its consolidated companies. According to this plan, during 2002 and 2003, 17,400,000 options were allocated, each of which is exercisable into one ordinary share of MA Industries. Following the exercise of options, as of March 31, 2005, 4,987,294 options to purchase shares of MA Industries were outstanding under this plan.

In April 2003, the board of directors of MA Industries approved a framework for the allotment of 17,000,000 stock options, each of which is exercisable into one ordinary share of MA Industries. Out of the framework, 3,400,000 options were allotted to the Chief Executive Officer and to directors of MA Industries, and following the exercise of options, 4,679,020 options remained outstanding as of March 31, 2005.

On March 8, 2005, the board of directors of MA Industries adopted a new option plan for its and its subsidiaries' officers and employees. Under the terms of the plan, on March 14, 2005, 14,900,000 stock options, each of which is exercisable into one ordinary share of MA Industries, were allotted, including 2,500,000 options that were deposited with a trustee for future distribution. Out of the total number of options allotted under the plan, 800,000 options were granted to MA Industries' chief executive officer.

All the options of MA Industries will be exercised for shares in a quantity reflecting the amount of the financial benefit inherent in the options, according to the Bonus Component Method.

Item 7. Major Shareholders and Related Party Transactions.

Major Shareholders

The following table sets forth certain information with respect to the beneficial ownership of our ordinary shares as of June 30, 2005 with respect to each person known to us to be the beneficial owner of 5% or more of our outstanding ordinary shares. None of our major shareholders has any different voting rights than any other shareholder.

Name	**Number of Ordinary Shares Beneficially Owned**	**Percentage of Outstanding Ordinary Shares (1)**
Claridge Israel L.L.C. (2)	2,375,835	14.74%
Esarbee Investments Limited (3)	2,271,167	14.09%
IDB Development Corporation Ltd. (4)	1,630,214	10.11%
All officers and directors as a group (14 persons) (5)	1,130,925	7.02%

(1) Based upon 16,118,784 ordinary shares issued and outstanding on June 30, 2005, which amount excludes 15,799 ordinary shares held by one of our wholly-owned subsidiaries, which according to the Companies Law do not confer voting rights while held by a subsidiary. The respective numbers of ordinary shares listed as beneficially owned in the table above, and the percentage of outstanding ordinary shares represented thereby, do not give effect to ordinary shares issuable upon exercise of options granted pursuant to the 1998, 2000 and 2003 plans, which are exercisable within 60 days of this annual report. See "Item 6. Directors, Senior Management and Employees," and Note 20 to our consolidated financial statements included elsewhere in this annual report.

(2) Claridge Israel L.L.C., a Delaware limited liability company, is mainly (99%) owned by The Charles Bronfman Trust. The Charles Bronfman Trust is a trust established under the laws of the U.S. primarily for the benefit of Ellen J. Bronfman Hauptman and her issue. Mr. Andrew Hauptman, one of our directors is the husband of Mrs. Ellen J. Bronfman Hauptman, the daughter of Charles R. Bronfman, our Chairman of the Board.

The holdings of the Claridge Israel L.L.C. in our ordinary shares were pledged in favor of Bank Hapoalim as a guarantee for a loan that was given to Claridge Israel L.L.C. by Bank Hapoalim.

(3) Esarbee Investments Limited, a company registered in Canada, is owned by The Charles Rosner Bronfman Family Trust. The Charles Rosner Bronfman Family Trust is a trust established under the laws of Canada primarily for the benefit of Stephen R. Bronfman and his issue. Mr. Stephen R. Bronfman is the son of Charles R. Bronfman, our Chairman of the Board.

The holdings of the Esarbee Investments Limited in our ordinary shares were pledged in favor of Bank Hapoalim as a guarantee for a loan that was given to Esarbee Investments Limited by Bank Hapoalim.

An additional 104,669 shares are held by the Charles R. Bronfman trust, a trust established under the laws of New York primarily for the benefit of Charles R. Bronfman and Stephen R. Bronfman.

(4) IDB Development Corporation Ltd., or IDBD is controlled (66%) by IDB Holding Corporation Ltd., or IDBH. Both IDBD and IDBH are public Israeli companies traded on the Tel Aviv Stock Exchange. Approximately 51.7% of the outstanding share capital of IDBH is owned by a group comprised as follows: (i) 31.02% is held by Ganden Investments I.D.B. Ltd., a private Israeli company controlled by Nochi Dankner and his sister, Shelly Bergman; (ii) 10.34% is held by Manor Investments-IDB Ltd., a private Israeli company controlled by Ruth Manor; and (iii) 10.34% is held by Avraham Livnat Investments (2002) Ltd., a private Israeli company controlled by Avraham Livnat. The members of this group entered into a shareholders agreement relating to, among other things, their joint control of IDBH, the term of which expires in May 2023. In addition to her holdings as a controlling shareholder in one of the members of this group, as described above, Shelly Bergman separately holds approximately 4.9% of IDBH's outstanding share capital.

(5) Includes (i) 508,439 options to purchase our ordinary shares held by several of our directors and officers, which are exercisable within 60 days of the date of this annual report, (ii) 74,584 ordinary shares held by several of our directors and officers and (iii) 547,902 ordinary shares, representing 3.4% of our outstanding ordinary shares, held by Anfield, Ltd., a company registered in Israel and owned by Jonathan B. Kolber, our Chief Executive Officer. The holdings of Anfield in our ordinary shares were pledged in favor of Bank Hapoalim as a guarantee for a loan that was given to Anfield by Bank Hapoalim. Does not include the ordinary shares held by Claridge Israel L.L.C., which may be deemed beneficially owned by Ellen J. Bronfman Hauptman and Andrew Hauptman as described in footnote 3 above, or the ordinary shares held by Esarbee Investments Limited described in footnote 4 above.

As of December 31, 2004, we had 50 ADS holders of record in the United States, holding ADSs representing approximately 4.4% of our outstanding ordinary shares, as reported by The Bank of New York, the depositary for our ADSs.

To our knowledge, (A) we are not directly or indirectly owned or controlled (i) by another corporation or (ii) by any foreign government and (B) there are no arrangements, the operation of which may at a subsequent date result in a change in control of our company.

Related Party Transactions

For details regarding transactions and loans between us and related parties, please see Note 25 to our consolidated financial statements included elsewhere in this annual report.

Item 8. Financial Information.

Consolidated Statements and Other Financial Information

See "Item 17. Financial Statements" and pages F-1 through F-141.

Legal Proceedings

Claims against Telrad

In October 1994, a claim was filed by the Engineers Union against Telrad, for an unspecified amount. The claim pertains to the recognition and applicability to Telrad engineers of the salary tables included in the general collective bargaining agreements, which were signed in 1994 and 1995 between the Engineers Union and the employers in the public service sector. Various legal proceedings took place in connection with this claim and in March 2005 the National Labor Court dismissed the claim with the consent of the parties.

In 1999, a claim was filed against Telrad by employees who are members of our workers' committee. The employees sued for access to Telrad's accounts so that they could examine the calculation of the distribution of profits to employees and for a declaratory judgment that Telrad is obliged to draw up new accounts for the distribution of profits. Various legal proceedings took place in connection with this claim and in March 2005 the National Labor Court dismissed the claim with the consent of the parties.

Restrictive Trade Practices

TTL/Telrad/Tadiran

During October 1997, following the publication of a newspaper article containing details about alleged violations of the Law for Restrictive Trade Practices, 1988 (the Israeli Anti-Trust Law) regarding price coordination and lack of competition between Tadiran, TTL (a former subsidiary of Tadiran which merged with ECI in 1999) and Telrad, the Israeli Anti-Trust Commissioner conducted an investigation at the offices of Tadiran, TTL and Telrad and at our offices during which documents were confiscated, employees were questioned and additional information was requested and provided.

On September 7, 2004, the Israeli Anti-Trust Commissioner agreed to issue an order according to Section 50B of the Anti-Trust Law pursuant to which Tadiran and Telrad would pay to the State Treasury the total amount of NIS 8 million, without this being considered an admission of guilt by the above companies and/or any of their officers to committing any crime. It was further agreed that indictments would not be filed, in the field of public switches and in the field of private switches, and the Israeli Anti-Trust Commissioner would not take any further action against the companies and/or their officers. The order was approved by the court. In

accordance with the agreement with the Israeli Anti-Trust Commissioner, a provision of NIS 8 million was included in our consolidated financial statements as of December 31, 2004.

On September 21, 2004, a suit was filed against us, Bezeq - the Israel Telecommunications Company Ltd., or Bezeq, Tadiran Ltd. (a subsidiary of Koor), Tadiran Telecommunications Ltd. (a former subsidiary of Koor which was merged with ECI), Tadiran Public Switching Ltd., (a former subsidiary of Telrad Telecommunications Ltd.), and Telrad alleging that during the previous decade, the defendants had engaged in activities prohibited by the Israeli Anti-Trust Law that resulted in damages to Bezeq's customers. A motion for recognition of the suit as a class action was filed together with the suit in accordance with the Israeli Anti-Trust Law. 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, we and the other defendants submitted to the District Court an objection to the plaintiff's request to certify the claim as a class action. As of the date of this annual report, the plaintiff had not yet filed its response to the objection.

Based on advice from our legal counsel, we believe the chances for the suit and for the action to be recognized as a class action are remote.

On February 2, 2005, we received a notice from the Office of Restrictive Trade Practices (the Israeli Anti-Trust Authority) that it was considering the possibility of prosecuting us, together with seven other companies that are not members of the Koor Group (including two companies that had been owned by Koor on the relevant dates, and were later sold to third parties) and nine executives (including two executives who had been salaried employees of Koor on the relevant dates), for violations of the Israeli Anti-Trust Law. On June 7, 2005, we received a bill of indictment from the Israeli Anti-Trust Authority in accordance with the abovementioned notice. The bill came in the wake of an investigation opened by the Israeli Anti-Trust Authority in the other companies during 2001, with respect to price fixing and collusion, and the lack of competition in the frozen and canned vegetable industry. The Israeli Anti-Trust Authority claims that the two companies that belonged to the Koor Group in the past had colluded with two other companies in the years 1992-1998.

Under the Israeli Anti-Trust Law, penalties may be imposed against an entity which has violated the law. In addition, should it be proven that violations were committed, civil lawsuits may be filed against us and we may be subject to civil penalties, if damages can be proven as a result of a violation of the law. At this early stage, it is not possible to predict the likelihood that any fines will be imposed on us or any civil lawsuits will be filed against us, nor whether any such fines or lawsuits would have an adverse effect on our business, financial condition or results of operations.

Environmental

Pursuant to an agreement with the Ministry of Environmental Protection, subsidiaries of MA Industries decided to construct facilities for the biological treatment of waste. Construction of these facilities is expected take approximately three years. In the estimation of MA

Industries' management, the aggregate construction cost will be between $30 million and $40 million.

One of MA Industries' plants is located in Ramat Hovav, along with other chemical plants, since the government determined that the geological layers in that particular area are completely impenetrable to liquid or pollution. The Ministry of Environmental Protection conducted examinations, which determined that there is data indicating subterranean pollution in Ramat Hovav. The examiners recommended the taking of measures to prevent the continuation of leakages from active and inactive plants, which are liable to constitute a source of pollution of the water table, in the area. MA Industries may be required to clean up the relevant areas or subterranean layers if it is found that MA Industries is responsible for the contamination. Over the past several years, various tests have been performed by different agencies to test the ground contamination in the Ramat Hovav area as well as the area surrounding the subsidiary's premises in Be'er Sheva. As of December 31, 2004, MA Industries' management did not expect a significant impact with respect to MA Industries from implementation of the report's recommendations, and, therefore, no provision has been included in MA Industries' financial statements. At this stage, MA Industries cannot estimate the costs involved of implementing a solution, if, as a result of the research that will be carried out, a solution will be found. Furthermore, the local municipality at Ramat Hovav is continuing to take rehabilitation steps relating to past incidents.

In May 2004, a subsidiary of MA Industries owning additional plants at the Ramat Hovav site, received notice of a change in the terms of its business license, pursuant to which the plants were required to change the method used to treat sewage from the existing treatment, and to do so independently through the implementation of vaporization processes. These terms include demands that, within a short period of time, the plants conduct research and development for the purpose of customizing the process to the composition of each plant's sewage, and later, to build a suitable facility. Additionally, formulation processes are to be implemented, whereby the plants must present the Ministry of Environmental Protection with a research and development program for the purpose of implementing the process with respect to the sewage. At the same time, the Ministry of Environmental Protection set January 1, 2008 as the date by which the plants must treat the sewage in the requisite format and to stop the flow of sewage into the Ramat Hovav Industrial Council's vaporization pools and treatment facilities.

On October 10, 2004, a subsidiary of MA Industries, together with the Israel Manufacturers Association and other companies, filed an administrative appeal with the Beer Sheba District Court against the Ministry of Environmental Protection. The subject of the appeal is the additional conditions for obtaining a business license described above. In the appeal, the District Court was asked to issue an order declaring that the additional terms are nullified. On December 29, 2004 a preliminary hearing on the appeal was held. In March 2005 the Court approved the mutual agreement of the parties to try to end the dispute by way of meditation.

In the estimation of MA Industries' management, based on advice from its legal counsel, in view of the preliminary stage of the process, it is not possible at this time to estimate the prospects of the mediation. In the estimation of MA Industries, if the appeal is dismissed, it will have a material effect on the activities of the plant in Ramat Hovav and/or will require investments of amounts that MA Industries is unable to estimate at this time.

On November 28, 2004, the Israeli government reached a decision approving a plan to reduce air and water pollution deriving from the Ramat Hovav industrial area. The plan calls for, among other things, (i) more restrictive rules regarding the treatment of sewage by the plants in the area (derived from the additional business license conditions that are the subject of the administrative appeal described above) to be complied with in two stages, the first by June 30, 2006 and the second by December 31, 2007; (ii) the drying and rehabilitation of the vaporization pools in the area by the Ramat Hovav Industrial Council, to be completed no later than December 31, 2012; and (iii) the formulation and implementation by the Ministry of Environmental Protection of a plan to prevent exceptional emission of hazardous materials into the air from the Ramat Hovav industrial area.

In the estimation of MA Industries' management, based on advice from its legal counsel, in view of the preliminary stage of the process, it is not possible at this time to estimate the costs of complying with the Israeli government's plan.

In August 2003, a criminal complaint was filed against MA Industries and one of its officers by the Man, Nature and Law Foundation. The complaint alleges that in several instances from 1999 to 2003, there were measurements at MA Industries' Ramat Hovav plant of chimney emissions of materials at prohibited concentrations, and that such emissions created strong air pollution. MA Industries' management believes the charges in the complaint are without merit and intends to defend itself against such charges. In the opinion of MA Industries' management, based on advice from its legal counsel, due to the early stage of the proceedings, it is not possible to estimate the outcome of the complaint and/or the resultant exposure. Therefore, the financial statements did not include a provision in respect of the proceedings.

Claims filed against Tadiran and its subsidiaries

In October 1999, Bezeq filed a claim against Tadiran asserting various losses incurred by Bezeq due to delays in the performance of works which were ordered under development and application contracts originally entered into between Bezeq and TTL in the amount of approximately $8.6 million.

Alternatively, Bezeq is suing for the balance of arrearage penalties to which it alleges is entitled pursuant to the same contracts, and which were not paid in full, in the amount of approximately $1.7 million.

In an arbitration judgment entered on February 17, 2000, all of Bezeq's arguments regarding TTL's liability for the principal claim were dismissed. The arbitration judgment determined that pursuant to the engagement contracts between the parties, Bezeq is entitled to compensation within the framework of arrearage penalties only. The negotiations between the parties for a settlement were unsuccessful and on February 15, 2003, the matter was returned to the arbitrator for his decision. In the opinion of management of Tadiran, based on the opinions of its legal counsel, Tadiran will not bear additional substantial expenses over and above the allocations contained in the financial statements. The negotiations between the parties for a settlement were unsuccessful, and the matter has been returned to the arbitrator who issued his ruling on February 26, 2004. In his ruling, the arbitrator affirmed Tadiran's position and ruled, in

accordance with the parameters for calculating the damages that Tadiran is meant to pay to Bezeq. The parties conducted negotiations regarding implementation of the parameters described above, and they agreed that the final amount would be NIS 4.6 million, which was paid on January 10, 2005.

Claims filed against MA Industries and its foreign subsidiaries

A claim was filed against several parties including a MA Industries subsidiary in Brazil, for an aggregate amount of $36 million, by a group that acquired the rights to two banks that had declared bankruptcy. With respect to the balance of the claim, the subsidiary has been sued as the guarantor of debts of agricultural cooperatives, which were its former shareholders.

The position of the subsidiary is that it was removed from the guarantee agreement under the terms of a subsequent agreement between the bank, the previous shareholders and a subsidiary of the former shareholders. The subsidiary's financial statements include a provision of $2 million, based on the possibility of a compromise agreement with the plaintiffs. In the estimation of the subsidiary, based on the opinion of its legal counsel, the provision recorded is sufficient to cover any possible loss from this claim.

Claims and other monetary demands have been filed against MA Industries' subsidiary in Brazil, in the aggregate amount of $48.5 million. Based on the opinion of its legal counsel, the subsidiary's management estimates that the chances of the subsidiary's success in the proceedings and its defense against the above claims and demands are high. The subsidiary believes that the provisions recorded in its financial statements are adequate to cover any possible damage which may result from these claims.

Claims filed against ECI

In January 2005, ECI was named as one of the defendants in a purported class action complaint filed in the United States Federal District Court for the District of Maryland against ECtel, certain officers and directors of ECtel, and ECI. The complaint alleges violations of U.S. Federal Securities laws by ECtel and breach of fiduciary duties by the individual defendants, in connection with disclosure of ECtel's financial results between April 2001 and April 2003. The complaint also alleges that ECI was the controlling shareholder of ECtel during this period and, as such, influenced and controlled the acts and omissions of ECtel. Damages claimed by the plaintiff have not yet been quantified. ECI's management believes that the allegations made in the complaint with respect to it are without merit.

Claims filed against Sheraton Moriah

The other shareholders in Herods Hotel Spa and Recreation Ltd., or Herods, a proportionately consolidated company of Sheraton Moriah (Israel) Ltd., Sheraton, filed a "motion for approval of a claim as a derivative action" with the Tel Aviv District Court against Sheraton and Herods. The derivative action for which they are seeking approval is for the cancellation of the management agreement between Herods and Sheraton, as part of the arbitration process to which the claim has been referred. The claim itself deals with the plaintiffs' arguments regarding breaches in the management and image promotion agreements.

On March 16, 2005, a compromise agreement was signed between Sheraton, Herods and the plaintiffs, whereby the parties agreed to resolve all the disputes that arose between them, and to instill proper relations in the management of Herods and in the management of the hotel owned by Herods. After the signing of this agreement, the parties agreed to withdraw all the legal proceedings they had instituted, in Israel and overseas.

The parties signed a motion to confer the validity of a ruling on this agreement. The agreement is in effect until June 30, 2020.

Other Claims

A number of claims have been filed against certain other companies concerning various matters arising in the normal course of business, including taxes, customs and VAT liabilities. The management of these companies believes, based on the opinion of the legal counsel handling the claims, that appropriate provisions in light of the circumstances have been included in the financial statements.

Item 9. The Offer and Listing.

Trading in our ADSs

In the United States, our American Depositary Shares, or ADSs, have been traded on the NYSE since our initial public offering in October 1995 under the symbol "KOR" and are evidenced by ADRs. Each ADS represents 0.20 fully paid ordinary shares. The following table sets forth, for the periods indicated, the high and low last reported sale prices for our ADSs.

	ADSs	
	High	Low
Annual	$	$
2000	22.0625	13.0000
2001	13.9375	4.1400
2002	7.2700	2.1000
2003	7.9600	2.0500
2004	10.5600	7.0500
Quarterly 2003		
First Quarter	2.8000	2.0500
Second Quarter	4.4000	2.6000
Third Quarter	4.2200	3.2400
Fourth Quarter	7.9600	4.2000
Quarterly 2004		
First Quarter	8.5700	7.2500
Second Quarter	9.4500	7.0500
Third Quarter	9.5500	7.2500
Fourth Quarter	9.8300	7.5600
Monthly 2005		
January	11.1400	9.9100
February	12.1100	11.0500
March	12.2900	10.4500
April	12.0000	10.5400
May	13.1800	12.1800
June	12.9500	11.1000

On June 30, 2005, the closing price of our ADSs was $11.10 per ADS.

The ADSs are issued pursuant to a Deposit Agreement entered into between us and the Bank of New York, as depository. The Bank of New York's address is 101 Barclay Street, New York, New York 10286.

Trading in our Ordinary Shares

Our securities have been listed on the Tel Aviv Stock Exchange, or TASE, since 1956. Our ordinary shares have been listed on the TASE since 1991. The ordinary shares are not listed on any other stock exchange and have not been publicly traded outside of Israel (other than through ADSs as noted above). The table below sets forth the high and low last reported prices of our ordinary shares (in NIS and dollars) on the TASE. The translation into dollars is based on the average period rate of exchange published by the Bank of Israel.

	Ordinary Shares			
	High		**Low**	
	NIS	**$**	**NIS**	**$**
Annual				
2000	455.00	111.85	255.50	62.81
2001	281.20	67.08	89.80	20.34
2002	166.60	36.92	48.60	10.26
2003	171.00	39.05	49.80	11.37
2004	224.90	52.21	165.30	38.37
Quarterly 2003				
First Quarter	68.00	14.51	49.80	10.63
Second Quarter	93.00	21.57	63.90	14.82
Third Quarter	95.20	21.44	70.70	15.92
Fourth Quarter	171.00	39.05	91.90	20.99
Quarterly 2004				
First Quarter	188.30	41.59	167.20	36.93
Second Quarter	208.50	46.36	167.40	37.22
Third Quarter	211.10	47.10	165.30	36.88
Fourth Quarter	224.90	52.21	173.30	40.23
Monthly 2005				
January	242.20	55.26	216.60	49.42
February	259.40	59.54	236.70	54.33
March	261.90	60.06	229.20	52.56
April	263.80	60.38	229.30	52.48
May	287.20	65.04	267.20	60.51
June	283.30	63.17	250.00	55.74

On June 30, 2005, the closing price of our ordinary shares on the TASE was NIS 251.00 (or $ 54.88) per share.

Item 10. Additional Information.

Memorandum and Articles of Association

Organization and Register

We are a public company organized in the State of Israel under the Companies Law. We are registered with the Registrar of Companies of the State of Israel and we have been assigned company number 52-001414-3.

Objects and Purposes

Our objects and purposes include a wide variety of business purposes, including many types of investments, borrowing and lending, owning and transacting in real estate, and are set forth in detail in Section 2 of our memorandum of association.

Directors

Pursuant to our articles of association, the number of directors serving on the board is required to be not less than five. The appointment of members to the Board of Directors, their replacement and removal, and the appointment of the Chairman of the Board of Directors requires approval by our shareholders by ordinary resolution. Each member of the Board of Directors remains in office until his/her office is vacated due to any one of the following events: death, legal incompetency, bankruptcy or resignation or upon removal at a shareholders meeting. Our chief executive officer is appointed by the Board of Directors. Our executive officers serve at the discretion of our chief executive officer pursuant to powers delegated to him by our Board of Directors. The board is authorized to appoint additional directors (whether to fill a vacancy or create new directorship) to serve until the next annual shareholders meeting, provided that the total number of directors does not exceed the maximum set by the general meeting. Compensation of the Board of Directors is fixed by the general meeting and directors are not required to hold qualifying shares

A meeting of the board may be called at the request of each director. The quorum required for a meeting of the board consists of a majority of directors holding office, for the time being, and entitled under any law to attend and vote at such meeting, provided that the quorum is not less than three. In lieu of a board meeting a resolution may be adopted by written consent.

The board may appoint a committee of the board and delegate to such committee all or any of the powers of the board, as it deems appropriate. Notwithstanding the foregoing, the board may, from time to time, revoke the delegation made to a committee of its powers and authorities or portion thereof. The board has appointed an audit committee and a remuneration committee, which have four members each.

The board has borrowing powers that may be exercised in accordance with our articles of association. Our articles of association are silent with regards to the retirement age of directors and directors' involvement in matters to which they are materially interested.

Approval of Certain Transactions

The Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in Koor and his personal affairs, avoiding any competition with Koor, avoiding exploiting any business opportunity of Koor in order to receive personal advantage for himself or others, and revealing to Koor any information or documents relating to Koor's affairs which the office holder has received due to his position as an office holder. Under the Companies Law, all arrangements as to compensation of office holders who are not directors require approval of the board of directors. Arrangements regarding the compensation of directors also require audit committee and shareholder approval.

The Companies Law requires that an office holder of Koor promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by Koor. In addition, if the transaction is an extraordinary transaction as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing. In addition, the office holder must also disclose any interest held by any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction other than in the ordinary course of business, otherwise than on market terms, or that is likely to have a material impact on Koor's profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction, after the office holder complies with the above disclosure requirement, only board approval is required unless our articles of association provide otherwise. The transaction must not be adverse to our interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by our audit committee and then by the board of directors, and, under certain circumstances, by a meeting of our shareholders. An office holder who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee may not be present at this meeting or vote on this matter.

The Companies Law applies the same disclosure requirements to a controlling shareholder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in Koor. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of compensation of a controlling shareholder who is an office holder, require the approval of the audit committee, the board of directors and our shareholders. The shareholder approval must include at least one-third of the shareholders who have no personal interest in the transaction and are present, in person or by proxy, at the meeting or, alternatively the total shareholdings of those who have no personal interest in the transaction who vote against the transaction must not represent more than one percent of the voting rights in Koor.

In addition, a private placement of securities that will increase the relative holdings of a shareholder that holds five percent or more of our outstanding share capital (assuming the exercise or conversion of all securities held by such person that are exercisable for or convertible into shares) or that will cause any person to become, as a result of the issuance, a holder of more than five percent of our outstanding share capital, requires approval by the board of directors and our shareholders.

Certain types of resolutions, called special or extraordinary resolution, such as resolutions amending a company's articles of association and regarding changes in capitalization, mergers, consolidations, windings up, or authorizing a class of shares with special rights, require approval of the holders of 75% of the shares represented at the meeting and voting thereon. Under the provisions of the Companies Law, the shareholders of a company may decide to amend such company's articles of association to reduce the percentage required for a special resolution to as low as a simple majority or eliminate the distinction between ordinary and special resolutions completely; such an amendment must be adopted by a 75% majority.

Under the Companies Law, our shareholders have a duty to act in good faith towards us and our shareholders and to refrain from abusing his or her power in Koor including, among other things, while voting in a general meeting of shareholders on the following matters:

- Any amendment to the articles of association;
- An increase of our authorized share capital;
- A merger; and
- Approval of interested party transactions which require shareholders approval.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in Koor, is under a duty to act with fairness towards us. The Companies Law does not describe the substance of this duty.

Insurance, Exemption and Indemnity of Office Holders

Under the Companies Law and pursuant to our articles of association as amended by a special resolution of the shareholders meeting held on June 1, 2003, we may, from time to time enter into a contract to insure any office holder including directors, in full or in part, for liability resulting from an obligation imposed on him or her as a result of an action performed in his or her capacity as an office holder in Koor, for each of the following:

(1) A breach of a duty of care towards the company or towards another person.

(2) A breach of a duty of trust towards the company, provided that the office holder acted in good faith and had reasonable grounds to presume that his or her action would not harm the interests of the company.

(3) A financial obligation imposed on him in favor of another person.

In addition, Under the Companies Law and pursuant to our articles of association as amended, we may, from time to time, indemnify an office holder, in full or in part, for an obligation or expense imposed on him or her as a result of an action performed in his or her capacity as an office holder in Koor, with respect to: (1) any financial obligation imposed on him or her in favor of another person pursuant to a judgment, including a judgment given in a settlement or arbitration decision approved by the court; and (2) any reasonable litigation expenses, including lawyer's fees requited by the office holder or imposed on him by a court, in a proceeding submitted against him by Koor or in its name or by another person, or in a criminal indictment in which he was acquitted, or a criminal indictment in which he was convicted of an offense not requiring proof of criminal intent.

We may give an advance undertaking to: (1) indemnify an office holder, provided that the undertaking is limited to types of events which, in the opinion of the board of directors, are foreseeable in advance at the time the undertaking to indemnify is given, and in an amount which the board of directors has determined is a reasonable amount under the circumstances, on condition that the amount paid for one set of events shall not exceed 25% of our equity according to the latest financial statements – annual or quarterly – as published near the date of payment of the indemnification; and (2) indemnify an office holder retroactively.

Required Approvals

In addition, under the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and board of directors and, in specified circumstances, by our shareholders.

Description of Koor's Deferred Shares

As of June 30, 2005, we had 15,156,533 Deferred Shares, par value NIS 0.001 per share, outstanding. Holders of Deferred Shares are only entitled to receive the nominal paid-up value of the Deferred Shares in the event of the winding up of Koor, subject to prior payment of the nominal paid-up value of the ordinary shares to the holders of ordinary shares. The holders of the Deferred Shares do not have any voting rights and they are not entitled to participate in the distribution of dividend of any kind. As of June 30, 2005, one of our wholly-owned subsidiaries held 13,575,441 (89.6%) of our Deferred Shares.

Description of Koor's Ordinary Shares

The par value of our ordinary shares is NIS 0.001 per share, and all issued and outstanding ordinary shares are fully paid and non-assessable. Holders of paid-up ordinary shares are entitled to participate equally in the payment of dividends and other distributions and, in the event of liquidation, in all distributions after the discharge of liabilities to creditors. Our shareholders do not have preferential rights to purchase new shares in Koor.

As of June 30, 2005, one of our wholly-owned subsidiaries held 15,799 of our ordinary shares; however, pursuant to the Companies Law these ordinary shares do not confer voting rights while held by our subsidiary.

Voting is on the basis of one vote per share. An ordinary resolution (for example, resolutions for the approval of final dividends or the appointment of auditors) requires the affirmative vote of a majority of shares voting in person or by proxy. A special resolution (for example, resolutions amending the articles of association or authorizing changes in capitalization or in the rights of shareholders) requires the affirmative vote of at least 75% of the shares voting in person or by proxy.

Under the articles of association, if at anytime the share capital is divided into various classes, we may, by way of special resolution consented to in writing by the holders of three quarters of our issued shares or a special resolution passed at an extraordinary meeting, alter the previous benefits restrictions and provisions applicable to that class. We shall also be entitled, by special resolution, to amend our share capitalization.

The Board of Directors has the power to set aside our cash profits to pay a final dividend after making appropriations for capital reserves; such a dividend must be approved at a general meeting. No dividend shall be declared at a general meeting which is greater than that recommended by the Board of Directors. The Board of Directors is also entitled to pay shareholders an interim divided if it is justified in light of our financial position. All ordinary shares represented by ADRs will be issued in registered form only. Ordinary shares do not entitle their holders to preemptive rights.

Meetings of Shareholders

Under the Companies Law, we are required to hold an annual meeting every year no later than fifteen months after the previous annual meeting. In addition, under the Companies Law, we are required to hold a special meeting in the following circumstances:

- At the direction of the Board of Directors;
- If so requested by two directors or 1/4 of the serving directors; or
- Upon the request of one or more shareholder who have at least 5% of the issued share capital and at least 1% of the voting rights or more shareholders who have at least 5% of the voting rights.

If the Board of Directors receives a demand to convene a special meeting, it must publicly announce the scheduling of the meeting within 21 days after the demand is delivered. The meeting must then be held no later than 35 days after notice was made public.

Under the Companies Law, the agenda at an annual meting is determined by the Board of Directors. The agenda must also include the proposals for which the convening of a special meeting was called, as well as any proposal requested by one or more shareholder who holds no less than 1% of the voting rights, as long as the proposal is one suitable for discussion at an annual meeting.

Under the Companies Law, a notice of an annual meeting must be made public (and delivered to every shareholder registered in the shareholders register, unless it is stated otherwise in the articles of the company as it is with Koor) at least 21 days before the meeting is convened.

The shareholders entitled to participate and vote at the meeting are the shareholders as of the record date set at the time of the decision to convene the meeting, provided that the record date is not more than 40 days, and not less than four days, before the date of the meeting.

A quorum is represented by at least two holders of ordinary shares personally, or by proxy, who together hold at least 1/3 of the voting rights of Koor. If such quorum is not present, the meeting stands adjourned until the same day of the following week. At the adjourned meeting, two members, irrespective of their percentage holding of voting rights, shall constitute a quorum.

Under the Companies Law, a shareholder who intends to vote at a meeting must demonstrate that he owns shares in accordance with the regulations. Under these regulations, a shareholder whose shares are registered with a member of a stock exchange (such as NYSE or the TASE) must provide us with an authorization from such member regarding his ownership as of the record date.

Right of Non-Israeli Shareholders to Vote

Our memorandum of association, the articles of association, and the laws of the State of Israel do not restrict in any way the ownership or voting of our ordinary shares by nonresidents or persons who are not citizens of Israel, except with respect to citizens or residents of countries that are in a state of war with Israel.

Change of Control

The Companies Law allows mergers, provided that each party to the transaction obtains the approval of its board of directors and shareholders. For purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares not held by the other party (or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party) have voted against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of that party. Finally, a merger may not be completed unless (i) at least 50 days have passed from the time that the requisite proposals for approval of the merger have been filed with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each of the parties.

Provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75% of the shares voted on the matter. In addition to shareholder approval, court approval of the transaction is required. The Companies Law also provides for a merger between companies, after completion of the above procedure for an "arrangement" transaction and court approval of the merger.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company, unless there is already another 25% shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company, unless there is already a 45% shareholder of the company. This requirement does not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted in the acquirer becoming a 45% shareholder of the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer. In any event, if as a result of an acquisition of shares the acquirer will hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. If more than 95% of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The law provides for the appraisal rights if a shareholder files a request in court within three months of a full tender offer.

Material Contracts

Elisra Shareholders' Agreement

On November 2, 2002, we entered into a shareholders' agreement with Elta and Elisra in order to govern the relationship between us and Elta as the sole owners of Elisra. The shareholders' agreement includes provisions with regard to the composition of the board of directors of Elisra, which will consist of 10 members in addition to any outside directors as may be required. Under the terms of the agreement, we and Elta will be able to nominate a number of directors on a pro rata basis based on the number of shares held at such time by us and Elta. If outside directors are required by law or stock exchange rules, we will consult with Elta to determine which outside directors are to be recommended by the board of directors. We and Elta may each oppose the appointment of an outside director proposed by the board of director for reasonable cause only and must provided reasoned notice within four business days from the date on which the board of directors gives notice of its proposed candidates. We have agreed with Elta to vote all of our shares for the candidates proposed by each of us pursuant to the agreement and to vote all of our shares for the outside director candidates nominated by the board of directors and to vote against the removal of a member of the board whose nomination was proposed by us or Elta unless we or Elta receive prior written consent permitting us to vote for removal of the director. These provisions remain in effect as long as each party owns at least 20% of the issued share capital of Elisra or in the instance when one party fails to hold 20%, the other party notifies the party that no longer holds 20% that the provisions remain in effect.

Under the terms of the agreement, as long as we and Elta each hold 20% or more of the issued share capital of Elisra, the resolutions adopted on several subjects listed in the agreement

will be adopted by a majority vote of the board of directors or general meeting of Elisra, provided that at least one board of director appointed by each of us and Elta voted for the resolution, and at the general meeting, we and Elta voted for the resolution. This clause will expire on the closing date of an initial public offering of shares of Elisra.

The shareholders' agreement restricts our and Elta's ability to sell shares of Elisra. In addition, the shareholders' agreement contains a right of first offer which requires us or Elta, whoever wished to sell shares of Elisra, to provide written notice of its wish to negotiate with the other party for the sale of the shares. We and Elta have 15 days from the date of delivery of the written notice to negotiate for the sale of the shares. The right of first offer contains a right of first refusal when either we or Elta, whoever is offered to purchase the shares, submits a bid for such shares that exceeds $2.8275, but we do not reach an agreement within the 15 days. In addition, if we sell all of our shares of Elisra to a third party, we have a drag-along right to require Elta to sell all of its shares to the third party at a price to be determined in accordance with the agreement. The drag-along provision will expire on the closing date of an initial public offering of shares of Elisra.

Under the terms of the agreement, we may sell part of our holdings in Elisra in an initial public offering and if we elect to do so, then Elta has the right to sell shares in the initial public offering with us on a pro rata basis. Pursuant to the agreement, Elisra is required to announce dividends of 25% of its net profits for that year, subject to a limitation for tax liability. This provision will expire on the closing date of an initial public offering of shares of Elisra.

Sales of MA Industries Shares

On January 14, 2004, we entered into an agreement, pursuant to which we sold 27 million shares of MA Industries to UBS Securities Israel Ltd. for approximately NIS 418 million.

On February 3, 2005, we entered into a block transfer deed, pursuant to which we sold 15.9 million shares of MA Industries to Merrill Lynch International for approximately NIS 374 million. Under the terms of the share transfer deed, we undertook not to sell additional shares of MA Industries for a nine-month period from the date of sale. As a result of this sale, and following the issuance by MA Industries of additional shares in the second quarter of 2005 upon the conversion of convertible securities and the exercise of employee stock options, our ownership percentage in MA Industries decreased to 32% as of June 30, 2005 (28.6% on a fully diluted basis taking into consideration the exercise of outstanding stock options and the conversion of outstanding convertible debentures).

Tadiran Communications Share Purchase Agreement

On September 10, 2004 we entered into a share purchase agreement with Trefoil Israel Partners II, L.P., First Israel Mezzanine Fund L.P. and First Israel Mezzanine Fund (in Israel) Limited Partnership to acquire approximately 33% of the shares of Tadiran Communications (approximately 31% on a fully diluted basis taking into consideration the exercise of outstanding stock options) from them for approximately NIS 637 million (approximately $144 million). Our acquisition of these shares, which closed in November 2004, was financed through a loan from an Israeli bank secured by these shares.

Sale of Knafaim Shares

On September 29, 2004, we entered into three share transfer deeds to sell a total of 19% of the shares of Knafaim to Mr. Israel Borowitz, Ms. Tamar Borowitz (controlling shareholders of Knafaim) and Mr. Avshalom Nuriel for a total purchase price of approximately NIS 144 million. As a result of these sales, our shareholding in Knafaim decreased from approximately 28.3% to approximately 9.2%.

Koor-Elbit-Federman Transactions

On December 27, 2004, we entered into a series of agreements with Elbit Systems Ltd., or Elbit, and with Federmann Enterprises Ltd., or Federmann. Under the terms of an share transfer deed with Elbit, we agreed to sell our entire holdings in Tadiran Communications (approximately 33%) to Elbit for approximately $146 million. Concurrently, pursuant to a share transfer deed with Federmann, we agreed to acquire approximately 9.8% of Elbit's share capital from Federmann for approximately $99 million . In connection with each of these transactions we entered into a shareholders agreement with the other party relating to, among other things, the voting of shares in the election of directors and rights of one party in connection with certain dispositions of shares by the other party. The two sales are interconnected and will be completed in two stages, the first of which closed on April 18, 2005. For a more detailed description of these transactions, see "Item 4 – Information on the Company – Business Overview – Our Defense Electronics Business – Recent Developments."

On July 6, 2005 we signed an amendment to these agreements, pursuant to which we will sell our entire holdings in Elisra to Elbit, instead of to Tadiran Communications as per the original agreements, for approximately $70 million and additional consideration following receipt of future insurance proceeds. We also received the right to acquire Dekolink Ltd., a start-up company in the cellular field that is wholly-owned by Elisra. As originally agreed, we will sell the balance of our holdings in Tadiran Communications to Elbit for $83 million. However, under the amended terms of the transactions, contrary to the terms of the original agreement, this sale will be conducted in two parts, and we and Elbit will share joint control of Tadiran Communications, as described above, following the sale of the first 5%. The sale of our remaining shares in Tadiran Communications is contingent on the execution of our sale of our holdings in Elisra to Elbit. Elbit's acquisition of Elisra is subject to the approvals of Elbit's shareholders at general meeting to be held within sixty days and Israel's Anti-Trust Commissioner. In addition, under the amended terms of the transactions, contrary to the terms of the original agreement, we will acquire only an additional 2.3% of Elbit from Federmann for $25 million, regardless of whether the sale of Elisra is approved by the Israeli Anti-Trust Commissioner. Upon completion of all the stages of these transactions, we will hold approximately 7.6% of Elbit.

Exchange Controls

Holders of ADSs are able to convert dividends and liquidation distributions into freely repairable non-Israeli currencies at the rate of exchange prevailing at the time of repatriation,

pursuant to a general permit issued by the Controller of Foreign Exchange at the Bank of Israel, or Controller, under the Currency Control Law, 1978, or Currency Control Law, as modified by certain reforms in May 1998, provided that Israeli income tax has been withheld by us with respect to such amounts.

Our ADSs may be freely held and traded pursuant to the General Permit and the Currency Control Law. The ownership or voting of ADSs by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel, are not restricted in any way by our memorandum of association or articles of association or by the laws of the State of Israel.

Pursuant to the reforms, the Bank of Israel has issued a new "general permit." Under such general permit, foreign currency transactions are generally permitted, except for transactions described in the permit that are specifically restricted. Among these restricted transactions are foreign currency transactions by institutional investors, including investments outside of Israel by pension funds and insurers, as well as futures contracts by foreign residents for periods of more than one month. All foreign currency transactions must be reported to the Bank of Israel under the new general permit.

Certain changes in Israeli tax legislation are expected as a result of the reforms. No assurance can be given that such legislative changes will be forthcoming in any particular time frame, or at all.

Taxation

The following is a discussion of Israeli and United States tax consequences material to our United States shareholders. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ADSs should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of our ADSs, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Considerations

The following discussion describes the current corporate tax structure applicable to companies in Israel, as well as a summary of certain Israeli tax laws affecting U.S. and other non-Israeli shareholders, for general information only and is not intended to substitute for careful or specific tax planning. To the extent that the discussion is based on legislation yet to be judicially or administratively interpreted, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended, and should not be construed, as legal or professional tax advice, and does not cover all possible tax considerations. Each investor should consult his or her own tax advisor as to the particular tax consequences of an investment in the ordinary shares including the effects of applicable Israeli or foreign or other tax laws and possible changes in the tax laws.

General Corporate Tax Structure

Israeli companies are generally subject to corporate tax on taxable income at the rate of 35% for the 2004 tax year, 34% for the 2005 tax year, 32% for the 2006 tax year and 30% for the 2007 tax year and thereafter and are subject to capital gains tax at a rate of 25% for capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003. For capital gains derived from assets acquired prior to January 1, 2003, the tax rate will be proportionate, based upon the corresponding periods. See also Item 3- "Risks Related to Israel" for a discussion of tax benefits under the Encouragement of Capital Investments Law.

Special Provisions Relating to Taxation under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, which we refer to in this annual report as the "Inflationary Adjustments Law", represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is complex. Among other features, there is a special tax adjustment for the preservation of equity as follows:

Where a company's equity exceeds the depreciated cost of fixed assets, as calculated under the Inflationary Adjustments Law, a deduction from taxable income is permitted equal to the excess multiplied by the applicable annual rate of inflation. The maximum deduction permitted in any single tax year is 70% of taxable income, with the unused portion permitted to be carried forward, linked to the increase in the Israeli Consumer Price Index, or CPI;

Where a company's depreciated cost of fixed assets exceeds its equity, then the excess multiplied by the applicable annual rate of inflation is added to taxable income;

Subject to specified limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the CPI.

However, during any fiscal year (or until February 28th of the following year) in which the rate of increase of the CPI would not exceed or shall not have exceeded, as applicable, 3%, the Israeli Minister of Finance may, with the approval of the parliamentary Finance Committee, determine by order that all or some of the provisions of this Law shall not apply to such fiscal year, or, that the rate of increase of the CPI relating to such fiscal year shall be deemed to be 0%, and to make the adjustments required to be made as a result of such determination. No such determination was made by the Minister in respect of 2004, even though the rate of increase of the CPI in 2004 was less than 3%.

Recent Israeli Tax Reforms

On January 1, 2003, the Law for Amendment of the Income Tax Ordinance (Amendment No. 132), 2002, known as the Tax Reform, came into effect, which significantly changed the taxation basis of corporate and individual taxpayers from a territorial basis to a worldwide basis.

The Tax Reform, aimed at broadening the categories of taxable income and reducing the tax rates imposed on employment income, introduced the following, among other things:

- Reduction of the tax rate levied on real capital gains (other than gains deriving from the sale of listed securities) derived after January 1, 2003, to a general rate of 25% for both

individuals and corporations. Regarding assets acquired prior to January 1, 2003, the reduced tax rate will apply to a proportionate part of the gain, in accordance with the holding periods of the asset, before or after January 1, 2003, on a linear basis;

- Imposition of Israeli tax on all income of Israeli residents, individuals and corporations, regardless of the territorial source of income, including income derived from passive sources such as interest, dividends and royalties;
- Introduction of controlled foreign corporation rules into the Israeli tax structure. Generally, under such rules, an Israeli resident who holds, directly or indirectly, 10% or more of the rights in a foreign corporation which has 70% or more of its shares not publicly traded, and in which more than 50% of the rights are held directly or indirectly by Israeli residents, and a majority of whose income in a tax year is considered passive income, will be liable for tax on the portion of such income attributed to his holdings in such corporation, as if such income were distributed to him as a dividend, provided that the tax imposed by the foreign country on the passive income is equal to or less than 20%; and
- Imposition of capital gains tax on capital gains realized by individuals as of January 1, 2003, from the sale of shares of publicly traded companies (such gain was previously exempt from capital gains tax in Israel). For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares, see "Capital Gains and Income Taxes Applicable to Non-Israeli Shareholders" below;
- Introduction of a new regime for the taxation of shares and options issued to employees and officers (including directors).

Capital Gains and Income Taxes Applicable to Non-Israeli Shareholders

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, and are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange outside of Israel in a country with which Israel has a tax treaty, such as the NYSE, provided however that such capital gains are not derived from a permanent establishment in Israel and provided that such shareholders did not acquire their shares prior to an initial public offering, unless the holder is subject to the Inflationary Adjustments Law. In addition, non-Israeli corporations will not be entitled to the exemption with respect to gains derived from the sale of shares of Israeli companies publicly traded, if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Under the convention between the United States and Israel concerning taxes on income (See "U.S.-Israel Tax Treaty" below), Israeli capital gains tax will not apply to the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States (within the meaning of the U.S.-Israel tax treaty) and is entitled to claim the benefits available to the person by such treaty.

In the event that the conditions for tax exemption described above are not met, or if capital gains are not tax exempt according to the tax treaty between Israel and the shareholder's country of residence, the following shall apply:

Israeli law generally imposes a capital gains tax on the sale of capital assets located in Israel including shares in Israeli companies by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country if residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price that is attributable to the increase in the Israeli consumer price index (or to the increase in the currency in which they purchased shares) between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Pursuant to the Tax Reform, generally, capital gains tax is imposed at a rate of 15% on real gains derived on or after January 1, 2003, from the sale of shares in companies (i) publicly traded on the TASE or; (ii) Israeli companies publicly traded on a foreign stock exchange in a country with which Israel has a tax treaty (such as the New York Stock Exchange). This tax rate does not apply to: (1) dealers in securities; (2) shareholders that report in accordance with the Inflationary Adjustment Law; (3) shareholders who acquired their shares prior to an initial public offering (that are subject to a different tax arrangement); (4) sale of shares between related parties, as defined by law; and (5) if financing expenses are deducted for tax purposes. In all of these cases, capital gains tax is imposed at a rate of 25%.

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, in some cases, the actual adjusted cost of the shares will be considered as the tax basis if it is higher than such average price.

In some instances where our foreign shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest paid by an Israeli resident, and non-passive income if the services were rendered in Israel. On distributions of dividends by us other than bonus shares (stock dividends), income tax at the rate of 25% (15% in the case of dividend distributed from the earnings of an approved enterprise) is generally withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

U.S.-Israel Tax Treaty

Pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "U.S.-Israel Tax Treaty"), which became effective as of January 1, 1995, the sale, exchange or disposition of ADSs or ordinary shares by a person who qualifies as a resident of the United States within the

meaning of the U.S.-Israel Tax Treaty and who is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty (“Treaty U.S. Resident”) will generally not be subject to Israeli capital gains tax unless such Treaty U.S. Resident held, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions. A sale, exchange or disposition of ADSs or ordinary shares by a Treaty U.S. Resident who held, directly or indirectly, shares representing 10% or more of our voting power at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

On distributions of dividends other than bonus shares or stock dividends, income tax is generally withheld at the source at the rate of 25%, or 15% for dividends of income generated by an approved enterprise, unless a different rate is provided in a treaty between Israel and the shareholder’s country of residence.

Under the U.S.-Israel tax treaty, the maximum Israeli tax on dividends paid to a holder of ordinary shares who is a U.S. resident (as defined in the treaty) is 25%, and if such shareholder is a U.S. corporation holding at least 10% of our issued voting power during the part of the tax year which precedes the date the dividend is distributed as well as throughout the previous tax year and the company distributing the dividend in not an “investment company” as defined in the tax treaty, the maximum Israeli tax on dividends paid to such corporation is 12.5%, or 15% for dividends derived from income generated from an approved enterprise.

U.S. Federal Income Tax Considerations

The following is a summary of the material U.S. Federal income tax consequences of the purchase, ownership and disposition of our ADSs to U.S. Holders. This summary is based on U.S. Federal income tax laws, regulations, rulings and decisions in effect as of the date of this annual report, all of which are subject to change at any time, possibly with retroactive effect. This summary does not address all tax considerations that may be may be relevant to any particular U.S. holder in light of the holder’s individual circumstances. In particular, this summary does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to U.S. holders that are subject to special treatment, including U.S. holders that:

- Are broker-dealers or insurance companies;
- Are financial institutions or financial services entities;
- Are tax-exempt organizations or retirement plans;
- Own directly, indirectly or by attribution 10% or more of our voting shares;
- Hold ADSs as part of a straddle or a hedging or conversion transaction;

- Hold their ADSs through partnerships or other pass through entities;
- Have elected mark-to-market accounting; and
- Have a functional currency that is not the dollar.

This summary does not address the effect of any U.S. Federal taxation other than U.S. Federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation.

You are urged to consult your tax advisors regarding the foreign and United States Federal, state and local tax considerations of purchasing, holding or disposing of our ADSs.

For purposes of this summary, a U.S. Holder is:

- An individual who is a citizen or, for U.S. Federal income tax purposes, a resident of the United States;
- A corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any political subdivision thereof;
- An estate whose income is subject to U.S. Federal income tax regardless of its source; or
- A trust if:
  - (a) a court within the United States is able to exercise primary supervision over administration of the trust; and
  - (b) one or more United States persons have the authority to control all substantial decisions of the trust.

Taxation of Dividends

Subject to the discussion below under "Passive Foreign Investment Companies," the gross amount of any distributions that you receive with respect to ADSs, including the amount of any Israeli taxes withheld from these distributions, will constitute dividends for U.S. Federal income tax purposes, to the extent the distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. Federal income tax principles. You will be required to include this amount of dividends in gross income as ordinary income on the date such dividend is actually or constructively received. Distributions in excess of our earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ADSs and, to the extent in excess of your tax basis, will be treated as capital gain. See "—Dispositions of ADSs" below for the discussion on the taxation of capital gains. Dividends generally will not qualify for the dividends-received deduction available to corporations.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld from these dividends, will be includible as income to you in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are distributed. If you convert

dividends paid in NIS into U.S. Dollars on the day the dividends are distributed, you generally should not be required to recognize foreign currency gain or loss with respect to such conversion. Any gain or loss resulting from a subsequent exchange of such NIS generally will be treated as U.S. source ordinary income or loss.

Further, and subject to the discussion below under "Passive Foreign Investment Companies," noncorporate U.S. Holders may be eligible for reduced rates of U.S. federal income tax (currently a maximum federal tax rate of 15%) in respect of dividends received with respect to ADSs in taxable years beginning before January 1, 2009, provided the holders satisfy certain holding period requirements. Please note that certain restrictions apply to the ability of an individual U.S. Holder to benefit from the lower rates. For example, the lower rates are only available to such an individual if such individual (i) holds stock for at least 61 days during the 121-day period beginning on the date that is 60 days before the date on which the share becomes ex-dividend (disregarding any period during which the U.S. Holder has diminished the risk of loss with respect to such stock (for example, by holding an option to sell such stock)), and (ii) is not under an obligation to make related payments with respect to positions in substantially similar or related property. Subject to certain conditions and limitations, you may elect to claim a credit against your U.S. Federal income tax liability for Israeli tax withheld from dividends received in respect of the ADSs. Dividends generally will be treated as foreign-source passive income or financial services income for United States foreign tax credit purposes. The rules relating to the determination of the foreign tax credit are complex, and you should consult your personal tax advisors to determine whether and to what extent you would be entitled to this credit. Alternatively, you may elect to claim a U.S. tax deduction, instead of a foreign tax credit, for such Israeli tax, but only for a year in which you elect to do so with respect to all foreign income taxes.

Dispositions of ADSs

If you sell or otherwise dispose of your ADSs, you will recognize gain or loss for U.S. Federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in your ADSs. Subject to the discussion below under the heading "Passive Foreign Investment Companies,'" such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you had held the ADSs for more than one year at the time of the sale or other disposition. Long-term capital gains realized by individual U.S. Holders generally are subject to a lower marginal U.S. federal income tax rate than ordinary income. Under most circumstances, any gain that you recognize on the sale or other disposition of ADSs will be U.S.-source for purposes of the foreign tax credit limitation; and losses recognized will be allocated against U.S. source income.

Passive Foreign Investment Companies

For U.S. Federal income tax purposes, we will be considered a passive foreign investment company, or PFIC, for any taxable year in which either 75% or more of our gross income is passive income, or at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gain over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S.

Federal income tax purposes, highly complex rules would apply to U.S. Holders owning ADSs. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

If we are treated as a PFIC for any taxable year,

- you would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ADSs ratably over your holding period for such ADSs,
- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- gain recognized upon the disposition of ADSs would be taxable as ordinary income,
- noncorporate holders will not be eligible for the reduced rate on dividends received with respect to ADSs and
- you would be required to make an annual return on IRS Form 8621 regarding distributions received with respect to ADSs and any gain realized on your ADSs.

One method to avoid the aforementioned treatment is to make a timely mark-to-market election in respect of your ADSs. If you elect to mark-to-market your ADSs, you will generally include in income any excess of the fair market value of the ADSs at the close of each tax year over your adjusted basis in the ADSs. If the fair market value of the ADSs had depreciated below your adjusted basis at the close of the tax year, you may generally deduct the excess of the adjusted basis of the ADSs over its fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that you included in income with respect to ADSs in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ADSs with respect to which the mark-to-market election is made, is treated as ordinary income or loss.

Based on our income, assets and activities for the year 2004, we believe that we were not a PFIC for that year, nor do we expect to become a PFIC in the foreseeable future. However, there can be no assurances that we will not be treated as a PFIC for that year or any taxable year. If we are or become a PFIC for any taxable year included in your holding period, we generally will remain a PFIC for all subsequent taxable years with respect to your holding of our ADSs.

You are urged to consult your tax advisor regarding the possibility of us being classified as a PFIC and the potential tax consequences arising from the ownership and disposition (directly or indirectly) of an interest in a PFIC.

Backup Withholding and Information Reporting

Dividend payments made with respect to ADSs and proceeds received in connection with the sale or other disposition of ADSs may be subject to information reporting to the U.S. Internal

Revenue Service (the "IRS") and backup withholding. Backup withholding will not apply, however, if a U.S. Holder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates such fact or (ii) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable backup withholding rules. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9 or Form W-8BEN (as applicable). Amounts held as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

Documents on Display

We are subject to certain of the information reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. We, as a "foreign private issuer" are exempt from the rules and regulations under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchase and sale of our shares. In addition, we are not required to file reports and financial statements with the U.S. Securities and Exchange Commission, or SEC, as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we will file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We will also furnish quarterly reports on Form 6-K containing unaudited financial information after the end of each of the first three quarters.

You may read and copy any document we file with the SEC at its public reference facilities at, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of this web site is http://www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities

Item 11. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>

General

Our market risk represents the risk of changes in the value of financial instruments caused by fluctuations in foreign exchange rates, interest rates and equity prices. From time to time, we enter into hedging arrangements to reduce our overall exposure to market risk; however, as a matter of policy, we do not enter into transactions of a speculative or trading nature. Foreign currency exchange rate and interest rate exposures are monitored by tracking actual and projected commitments and through the use of sensitivity analysis. We do not believe that it is exposed to any material market risk with regard to market risk sensitive instruments.

Market risk related to foreign currency exchange rates

We have financial liabilities denominated in various currencies (primarily dollars). Fluctuations in foreign currency exchange rates are likely to affect our financing expenses.

As of December 31, 2004, we had consolidated foreign currency-linked financial liabilities of approximately NIS 4,759 million, of which approximately NIS 3,433 million was dollar-linked and the rest, approximately NIS 1,326 million, was linked to other currencies (mainly the Brazilian Real).

As of December 31, 2004, our net financial liabilities in foreign currency totaled approximately NIS 1,773 million, of which total dollar-linked financial liabilities are approximately NIS 1,791 million, and net financial assets linked to other foreign currencies (mainly the Brazilian real) amount to approximately NIS 18 million. A portion of the currency exposure also stems from the export sales included in our consolidated financial statements for the year ended December 31, 2004, which amounted to approximately NIS 7,849 million, representing approximately 85% of our total consolidated sales for such period, while a considerable portion of the expenses included in the consolidated statements are stated in shekels.

Our policy regarding hedging against exposure to fluctuations in currency prices is that each subsidiary will hedge according to the needs and markets in which it operates; there is no policy of engaging in currency hedging over the entire consolidated balance sheet.

Our consolidated statements as of December 31, 2004 include transactions with financial instruments that serve mainly as a hedge against foreign currency exchange rate exposure for our subsidiary companies.

During 2004, we bought dollars in exchange for other currencies in forward contracts, call options, put options and swaps totaling, as of December 31, 2004: approximately NIS 140 million, NIS 1,454 million, NIS 698 million, and NIS 25 million, respectively. At the same time, we had consolidated sales of dollars in exchange for other currencies through forward contracts, call options, put options and swaps totaling, as of December 31, 2004: NIS 46 million, NIS 510 million, NIS 1,626 million and NIS 258 million, respectively. For a detailed description of transactions with financial instruments, see Note 21 to our consolidated financial statements included elsewhere in this annual report.

Market risk related to inflation rates

Some of our financial loans are linked to the Israeli Consumer Price Index, or CPI. In accordance with Israeli GAAP, until December 31, 2003 our financial statements were presented in terms of NIS of identical purchasing power as of December 31, 2003 to account for the effects of inflation based upon changes in the CPI. As a result, the CPI linkage component of our financing expenses was neutralized. Subsequent to the discontinuation of the adjustment of financial statements for inflation as of January 1, 2004, our financing expenses are now exposed to fluctuations in the CPI

As of December 31, 2004, our consolidated balance sheet contained CPI-linked loans and other liabilities totaling approximately NIS 1,500 million. As of such date, our consolidated balance sheets contained CPI-linked financial assets totaling approximately NIS 203 million.

Our net financial liabilities exposed to CPI-linkage amounted to approximately NIS 1,297 million as of December 31, 2004. Should the CPI rise by 2%, our financing expenses would increase by approximately NIS 26 million.

We believe that a 2% increase in the CPI constitutes a reasonable increase for examining the impact of exposure to interest rates on our financing expenses, in view of the changes that have occurred in recent years and those that are forecast for the coming year.

Market risk related to interest rates

Some of our financial loans are denominated in variable interest rates that are likely to fluctuate from time to time. Our policy regarding exposure to interest rates is that each company in our consolidated group manages its own exposure.

We engage in hedge transactions against interest rate fluctuations from time to time. As of December 31, 2004, these transactions totaled approximately NIS 215 million at the parent company level.

As of December 31, 2004, our consolidated balance sheet contained loans and other liabilities in foreign currencies (mainly in U.S. dollars) totaling approximately NIS 4,759 million, and non-index linked shekel-denominated loans totaling approximately NIS 1,646 million. As of such date, our consolidated balance sheets contained financial assets in foreign currencies (mainly in U.S. dollars) totaling approximately NIS 2,986 million and non-index linked shekel-denominated assets totaling approximately NIS 632 million.

As of December 31, 2004, our net financial liabilities exposed to fluctuations in the LIBOR interest rate amounted to approximately NIS 2,034 million. Should the LIBOR interest rate rise by 1%, our financing expenses would increase by approximately NIS 20 million.

As of December 31, 2004, our net financial liabilities exposed to fluctuations in the interest rate in Israel is approximately NIS 870 million. Should the interest rate in Israel rise by 2%, our financing expenses would increase by approximately NIS 17 million.

We believe that a 1% increase in the LIBOR interest rate and 2% in the interest rate in Israel constitutes a reasonable increase for examining the impact of exposure to interest rates on our financing expenses, in view of the changes that have occurred in recent years and those that are forecast for the coming year.

Market risk related to equity prices

We had equity marketable short-term securities at December 31, 2004 of approximately NIS 375 million. Market risk was estimated as the potential hypothetical decrease of 10% in the prices of these securities. Assuming such a decrease, the fair value of the equity marketable securities would decrease by approximately NIS 38 million.

In addition, we have long-term equity holdings in several subsidiaries whose securities are traded on the Tel Aviv Stock Exchange and Nasdaq. Ordinary fluctuations in the prices of these subsidiaries' securities would not affect our financial statements; however, significant fluctuations may have an adverse affect on our financial statements.

Item 12. Description of Securities Other than Equity Securities.

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not Applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not Applicable.

Item 15. Controls and Procedures

Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of December 31, 2004. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to us (including our consolidated subsidiaries) required to be included in our reports files or submitted under the Exchange Act.

Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) that occurred during the year ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mrs. Paulette Eitan, an external director and a member of the audit committee of our board of directors, is an "audit committee financial expert" as defined in Item 16A of Form 20-F.

Item 16B. Code of Ethics

We have adopted a written code of ethics that applies to our Chief Executive Officer, our Chief Financial Officer and all of our other executive officers.

You may request a copy of our code of ethics, at no cost, by writing to or telephoning us as follows:

Koor Industries Ltd.
Telrad Building
14 Hamelacha Street
Park Afek
Rosh Ha'ayin 48091, Israel
Attn: Shlomo Heller, General Counsel
Telephone: +011-972-3-900-8333

Item 16C. Principal Accountant Fees and Services

Audit Fees: KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately $2,436,000 for fiscal year 2004 in connection with the professional services rendered for the audit of our annual consolidated financial statements and our consolidated subsidiaries' annual financial statements, review of quarterly consolidated financial statements and services normally provided by them relating to statutory and regulatory filings or engagements, including review of documents filed with the SEC. For fiscal year 2003, KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately $2,064,000 for these services.

Audit-Related Fees: KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately $148,000 in fiscal year 2004 for assurance and related services reasonably related to the performance of our audit. In fiscal year 2003, KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately $59,000 for audit-related services. These fees relate mainly to the issuance of special confirmations.

Tax Fees: KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately $124,000 in fiscal year 2004 for tax compliance, tax advice and tax planning. KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately $115,000 for tax-related services in fiscal year 2003.

All Other Fees: KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately $271,000 in fiscal year 2004 for products and services other than those comprising audit fees, audit-related fees and tax fees. These fees mainly relate to assistance to the companies regarding documentation of internal control over financial reporting. In fiscal year 2003, KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately $23,000 for products and services in this category.

Audit Committee Pre-Approval Policy and Procedures

Our audit committee is responsible, among other things, for recommending to our shareholders the appointment of our external auditors, for approval of the amounts to be paid to our external auditors and for assisting our board of directors in overseeing the work of our external auditors. To assure the independence of our independent auditors, our audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories Audit Services, Audit-Related Services, Tax-Related Services, and Other Services that may be performed by our auditors, as well as the budgeted fee levels for each of these categories. All other permitted services must receive a specific approval from our audit committee. Our external auditor periodically provides a report to our audit committee in order for our audit committee to review the services that our external auditor is providing, as well as the status and cost of those services.

During 2004, none of the services provided to us by our external auditors were provided pursuant to the *de minimis* exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

PART III

Item 17. Financial Statements.

See pages F-1 through F-141, incorporated herein by reference.

Item 18. Financial Statements.

Not Applicable.

Item 19. Exhibits.

Exhibit No.	Description
1.1	Memorandum of Association of Koor Industries Ltd.*
1.2	Articles of Association of Koor Industries Ltd.*
1.3	Amendments to Articles of Association of Koor Industries Ltd. Pursuant to a General Meeting of Shareholders held on June 1, 2003.***
2.1	Form of Ordinary Share Certificate.*
2.2	Form of Deposit Agreement including Form of American Depositary Receipt.**
4.1	Shareholders Agreement, dated November 2, 2002, by and among Koor Industries Ltd., Elta Systems Ltd. and Elisra Electronic Systems Ltd. ***
4.2	Agreement, dated January 14, 2004, between Koor Industries Ltd. and UBS Securities Israel Ltd. ****
4.3	Share Purchase Agreement, dated September 10, 2004, between Koor Industries Ltd. and Trefoil Israel Partners II, L.P., First Israel Mezzanine Fund L.P. and First Israel Mezzanine Fund (in Israel) Limited Partnership ****
4.4	Share Transfer Deed, dated September 29, 2004, between Koor Industries Ltd. and Mr. Israel Borowitz. ****
4.5	Share Transfer Deed, dated September 29, 2004, between Koor Industries Ltd. and Ms. Tamar Borowitz. ****
4.6	Share Transfer Deed, dated September 29, 2004, between Koor Industries Ltd. and Mr. Avshalom Nuriel. ****
4.7	Share Transfer Deed, dated December 27, 2004, and amended July 6, 2005, between Koor Industries Ltd. and Elbit Systems Ltd. ****
4.8	Shareholders' Agreement, dated December 27, 2004, and amended July 6, 2005, between Koor Industries Ltd. and Elbit Systems Ltd. ****
4.9	Share Transfer Deed, dated December 27, 2004, and amended July 6, 2005, between Koor Industries Ltd. and Federmann Enterprises Ltd.. ****
4.10	Shareholders' Agreement, dated December 27, 2004, and amended July 6, 2005, among Koor Industries Ltd., Federmann Enterprises Ltd. and Heris Aktiengesellschaft. ****
4.11	Share Transfer Deed, dated February 3, 2005, between Koor Industries Ltd. and Merrill Lynch International. ****
8.1	List of significant subsidiaries and affiliates.****
12.1	Certification of the Principal Executive Officer of Koor Industries Ltd. pursuant to

Section 302 of the Sarbanes-Oxley Act of 2002.****

12.2 Certification of the Principal Financial Officer of Koor Industries Ltd. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.****

13.1 Certification of the Principal Executive and Financial Officers of Koor Industries Ltd. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.****

14.1 Consent of KPMG Somekh Chaikin to the incorporation by reference into the effective registration statement on Form S-8 of Koor Industries Ltd. under the Securities Act of 1933 of their report with respect to the consolidated financial statements of Koor Industries Ltd., which appears in this Annual Report on Form 20-F.****

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* Incorporated herein by reference to Koor Industries Ltd.'s Registration Statement on Form F-1 (Registration No. 333-97732) filed with the Securities and Exchange Commission on October 3, 1995.

** Incorporated herein by reference to Koor Industries Ltd.'s Registration Statement on Form F-6 (Registration No. 333-97758) filed with the Securities and Exchange Commission on October 4, 1995.

*** Incorporated by reference to Koor Industries Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2002 filed with the Securities and Exchange Commission on July 15, 2003.

**** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Rosh Ha'ayin, State of Israel, on the 15th day of July, 2005.

KOOR INDUSTRIES LTD.

By: /s/ Jonathan B. Kolber
Jonathan B. Kolber
Chief Executive Officer

Financial Statements as at December 31, 2004

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[Letterhead of Somekh Chaikin, a Member Firm of KPMG International]

Report of Independent Registered Public Accounting Firm

The Shareholders
Koor Industries Ltd.

We have audited the accompanying balance sheets of Koor Industries Ltd. (hereinafter – the "Company" or Koor) and the consolidated balance sheets of the Company and its subsidiaries as at December 31, 2004 and 2003, and the related statements of operations, shareholders' equity and cash flows, for each of the three years, the last of which ended December 31, 2004. 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, whose assets constitute 12% and 20% of the total consolidated assets as at December 31, 2004 and 2003 respectively, and whose revenues constitute 14%, 19% and 20% of the total consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. Furthermore, we did not audit the financial statement of certain affiliates, whose company's investments constitute NIS 204,878 thousand and NIS 218,081 thousand, as at December 31, 2004 and 2003, respectively, and its equity in earnings constitute NIS 5,647 thousand for the year ended December 31, 2004 and its equity in losses, NIS 12,875 thousand and NIS 6,748 thousand for the years ended December 31, 2003 and 2002, respectively. The financial statements of those subsidiaries and affiliates were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts included for such subsidiaries and affiliates, is based solely on the said 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 the above-mentioned 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 of December 31, 2004 and 2003 and the results of their operations, the changes in shareholders' equity and their cash flows for each of the three years, the last of which ended December 31, 2004, in conformity with accounting principles generally accepted in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America (US GAAP). Information related to the nature and effect of such differences is presented in Note 28 of the financial statements. As further described in Note 28 to the financial statements, the reconciliation of differences between Israeli GAAP and US GAAP as of and for the years ended December 31, 2003 and 2002 has been restated.

As explained in Note 2(B), the financial statements for dates and reporting periods subsequent to December 31, 2003 are stated in reported amounts, in accordance with the accounting standards of the Israel Accounting Standards Board. The financial statements for dates and reporting periods that ended up to the aforementioned date are stated in values that were adjusted to that date according to the changes in the general purchasing power of the Israeli currency, in accordance with opinions of the Institute of Certified Public Accountants in Israel.

/s/ Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Isr.)

March 29, 2005, except for Note 28, as to which the date is July 13, 2005.

Consolidated Balance Sheets as at December 31

	Note	December 31 2004	December 31 2003	Convenience translation (Note 2B) December 31 2004
		Reported amounts*	Adjusted in terms of NIS of December 2003	Reported amounts
		2004	2003	2004
		NIS thousands		US $ thousands
Assets				
Current assets				
Cash and cash equivalents		**617,310**	593,403	**143,294**
Short-term deposits and investments	4	**416,468**	366,809	**96,673**
Trade receivables	5	**2,173,599**	2,052,461	**504,549**
Other receivables	6	**528,983**	452,170	**122,791**
Inventories and work in progress, net of customer advances	7	**2,294,885**	1,885,751	**532,703**
Assets designated for sale		**41,765**	42,525	**9,695**
Total current assets		**6,073,010**	5,393,119	**1,409,705**
Investments and long-term receivables				
Investments in affiliates	8	**1,375,160**	943,764	**319,211**
Other investments and receivables	9	**489,031**	483,384	**113,517**
		1,864,191	1,427,148	**432,728**
Fixed assets	10	**2,852,907**	2,928,407	**662,235**
Intangible assets deferred tax assets and deferred expenses	11	**2,357,458**	2,121,083	**547,228**
		13,147,566	11,869,757	**3,051,896**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

	Note	December 31 2004 Reported amounts* 2004	December 31 2003 Adjusted in terms of NIS of December 2003 2003	Convenience translation (Note 2B) December 31 2004 Reported amounts* 2004
		NIS thousands		US $ thousands
Liabilities and Shareholders' Equity				
Current liabilities				
Credit from banks and others	12	**1,738,456**	1,577,402	**403,541**
Trade payables	13	**1,667,455**	1,342,783	**387,060**
Other payables	14	**1,369,442**	1,270,217	**317,884**
Customer advances, net of costs incurred on project	7	**211,207**	156,441	**49,027**
Total current liabilities		**4,986,560**	4,346,843	**1,157,512**
Long-term liabilities				
Net of current maturities:	15			
Bank loans		**2,208,096**	3,006,343	**512,557**
Other loans		**133,019**	113,494	**30,877**
Convertible debentures of consolidated company		**646,200**	-	**150,000**
Customer advances		**142,164**	194,094	**33,000**
Deferred taxes	16G	**240,468**	199,787	**55,819**
Liability for employee severance benefits, net	17	**197,168**	192,002	**45,768**
Total long-term liabilities		**3,567,115**	3,705,720	**828,021**
Contingent liabilities and commitments	18			
Convertible debentures of consolidated company		**165,091**	340,270	**38,322**
Minority Interest		**2,552,333**	1,736,531	**592,464**
Shareholders' Equity	20	**1,876,467**	1,740,393	**435,577**
		13,147,566	11,869,757	**3,051,896**

/s/ Jonathan Kolber	/s/ Gabriela Shalev	/s/ Yuval Yanai
Jonathan Kolber Chief Executive Officer	Prof. Gabriela Shalev Member of the Board of Directors	Yuval Yanai Vice President Chief Financial Officer

March 29, 2005, except for Note 28, as to which the date is July 13, 2005

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Company Balance Sheets as at December 31

	Note	December 31 2004 Reported amounts* 2004	December 31 2003 Adjusted in terms of NIS of December 2003 2003	Convenience translation (Note 2B) December 31 2004 Reported amounts* 2004
		NIS thousands		US $ thousands
Assets				
Current assets				
Cash and cash equivalents		**29,665**	9,205	**6,886**
Short-term deposits and investments	4	**298,641**	310,806	**69,322**
Short-term loans and current maturities of loans to investee companies		**49,928**	16,480	**11,590**
Receivables:				
Investee companies		**9,435**	28,650	**2,190**
Others	6	**84,038**	67,774	**19,507**
Assets designated for sale		**41,765**	42,525	**9,695**
Total current assets		**513,472**	475,440	**119,190**
Investments and long-term receivables				
Investments in investees	8	**3,601,557**	3,453,066	**836,016**
Other investments and receivables	9	**33,175**	33,177	**7,701**
		3,634,732	3,486,243	**843,717**
Fixed assets, net	10	**22,484**	23,323	**5,219**
		4,170,688	3,985,006	**968,126**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

	Note	December 31 2004 Reported amounts* 2004	December 31 2003 Adjusted in terms of NIS of December 2003 2003	Convenience translation (Note 2B) December 31 2004 Reported amounts* 2004
		NIS thousands		US $ thousands
Liabilities and Shareholders' Equity				
Current liabilities				
Credit from banks and others	12	**719,730**	588,535	**167,068**
Trade payables	13	**383**	503	**89**
Other payables:				
Investee companies		**14,311**	57	**3,322**
Others	14	**49,132**	43,266	**11,405**
Total current liabilities		**783,556**	632,361	**181,884**
Long-term liabilities				
Net of current maturities:	15			
Loans from banks and others		**1,505,690**	1,610,768	**349,510**
Liability for employee severance benefits, net	17	**4,975**	1,484	**1,155**
Total long-term liabilities		**1,510,665**	1,612,252	**350,665**
Contingent liabilities and commitments	18			
Shareholders' equity	20	**1,876,467**	1,740,393	**435,577**
		4,170,688	3,985,006	**968,126**

/s/ Jonathan Kolber	/s/ Gabriela Shalev	/s/ Yuval Yanai
Jonathan Kolber Chief Executive Officer	Prof. Gabriela Shalev Member of the Board of Directors	Yuval Yanai Vice President Chief Financial Officer

March 29, 2005, except for Note 28, as to which the date is July 13, 2005

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Consolidated Statements of Operations

	Note	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
		2004	**2003**	**2002**	**2004**
		Reported amounts*	**Adjusted in terms of NIS of December 2003**		**Reported amounts***
	Note	**NIS thousands**			**US $ thousands**
Revenue from sales and services	23A	**9,228,673**	7,690,430	7,099,790	**2,142,218**
Cost of sales and services	23B	**6,287,679**	5,392,944	5,315,780	**1,459,536**
Gross profit		**2,940,994**	2,297,486	1,784,010	**682,682**
Selling and marketing expenses	23C	**1,172,204**	940,457	814,777	**272,099**
General and administrative expenses	23D	**526,004**	460,744	489,369	**122,100**
Operating earnings		**1,242,786**	896,285	479,864	**288,483**
Financing expenses, net	23E	**271,362**	228,200	408,437	**62,990**
		971,424	668,085	71,427	**225,493**
Other income (expenses), net	23F	**(78,759)**	(219,721)	5,824	**(18,282)**
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	3B	**-**	-	(390,901)	**-**
Earnings (loss) before income tax		**892,665**	448,364	(313,650)	**207,211**
Income tax	16H	**(287,100)**	(85,372)	(141,179)	**(66,643)**
		605,565	362,992	(454,829)	**140,568**
Group's equity in the operating results of affiliates, net	23G	**(27,687)**	(113,823)	(252,091)	**(6,427)**
		577,878	249,169	(706,920)	**134,141**
Minority interest in consolidated company's results, net		**(432,888)**	(202,807)	(60,049)	**(100,485)**
Net earnings (loss) from continuing activities		**144,990**	46,362	(766,969)	**33,656**
		NIS	**NIS**	**NIS**	**US$**
Basic and diluted earnings (loss) per NIS 1 par value of ordinary shares:	26	**8.851**	2.950	(50.547)	**2.054**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Company Statements of Operations

	Note	Year ended December 31 2004 Reported amounts*	2003 Adjusted in terms of NIS of December 2003	2002 Adjusted in terms of NIS of December 2003	Convenience translation (Note 2B) Year ended December 31 2004 Reported amounts*
		NIS thousands	NIS thousands	NIS thousands	US $ thousands
Income					
Management services from subsidiaries		**22,334**	25,006	35,573	**5,184**
Other income	23F	**234,959**	5,691	365,431	**54,540**
Total income		**257,293**	30,697	401,004	**59,724**
Expenses					
General and administrative Expenses	23D	**46,648**	41,164	48,136	**10,828**
Financing, net	23E	**110,806**	35,108	199,808	**25,721**
Total expenses		**157,454**	76,272	247,944	**36,549**
Earnings (loss) before income tax		**99,839**	(45,575)	153,060	**23,175**
Income tax		**18,951**	55,667	3,722	**4,399**
Earnings after income tax		**118,790**	10,092	156,782	**27,574**
Koor's equity in the operating results of investee companies, net	23G	**26,200**	36,270	(923,751)	**6,082**
Net earnings (loss) for the year		**144,990**	46,362	(766,969)	**33,656**
		NIS	**NIS**	**NIS**	**US$**
Basic and diluted earnings (loss) per NIS 1 par value of ordinary shares :	26	**8.851**	2.950	(50.547)	**2.054**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Statement of Shareholders' Equity

	Number of ordinary shares (1)	Share capital	Capital reserves	Company shares held by the Company and subsidiaries	Cumulative foreign currency translation adjustments	Retained earnings (deficit)	Total
	Adjusted in terms of NIS of December 2003						
	NIS thousands						
Balance at December 31, 2001	15,168,884	564,515	2,564,099	(272,458)	(418,923)	(241,409)	2,195,824
Changes during 2002:							
Net loss	-	-	-	-	-	(766,969)	(766,969)
Exercise of stock options granted to Israeli banks	4,493	*-	-	-	-	-	-
Cumulative foreign currency translation adjustments, net	-	-	-	-	12,538	-	12,538
Provision for decline in value of autonomous investee (see Note 3A(1))	-	-	-	-	(105,125)	-	(105,125)
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation (see Note 3B)	-	-	-	-	390,901	-	390,901
Balance as December 31, 2002	15,173,377	564,515	2,564,099	(272,458)	(120,609)	(1,008,378)	1,727,169
Balance at December 31, 2002	15,173,377	564,515	2,564,099	(272,458)	(120,609)	(1,008,378)	1,727,169
Changes during 2003:							
Net earnings	-	-	-	-	-	46,362	46,362
Exercise of stock options granted to employees	67,783	*-	-	-	-	-	-
Issuance of "treasury stock" (see Note 20B)	500,000	-	-	192,137	-	(149,126)	43,011
Cancellation of provision for decline in value of autonomous investee (see Note 3A(1))	-	-	-	-	73,401	-	73,401
Cumulative foreign currency translation adjustments	-	-	-	-	(149,550)	-	(149,550)
Balance at December 31, 2003	15,741,160	564,515	2,564,099	(80,321)	(196,758)	(1,111,142)	1,740,393

* Represents an amount lower than NIS 1,000.
(1) Net of the Company holdings and its subsidiaries' holdings.

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

Statement of Shareholders' Equity (cont'd)

	Number of ordinary shares (1)	Share capital	Capital reserves	Company shares held by the Company and subsidiaries	Cumulative foreign currency translation adjustments	Retained earnings (deficit)	Total
			Adjusted in terms of NIS of December 2003				
			NIS thousands				
Balance at December 31, 2003	15,741,160	564,515	2,564,099	(80,321)	(196,758)	(1,111,142)	1,740,393
Changes during 2004:							
Net earnings	-	-	-	-	-	**144,990**	**144,990**
Exercise of stock options granted to employees	**83,025**	*-	-	-	-	-	-
Cumulative foreign currency translation adjustments, net	-	-	-	-	**(8,916)**	-	**(8,916)**
Balance as December 31, 2004	**15,824,185**	**564,515**	**2,564,099**	**(80,321)**	**(205,674)**	**(966,152)**	**1,876,467**

* Represents an amount lower than NIS 1,000.
(1) Net of the Company holdings and its subsidiaries' holdings.

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

Statement of Shareholders' Equity (cont'd)

Convenience translation into US Dollars (Note 2B)

	Share capital	Capital reserves	Company shares held by the Company and subsidiaries	Cumulative foreign currency translation adjustments	Retained earnings (deficit)	Total
	US$ thousands					
Balance at January 1, 2003	131,039	595,194	(18,645)	(45,672)	(257,925)	403,991
Changes during 2004:						
Net earnings	-	-	-		**33,656**	**33,656**
Exercise of stock options granted to employees	*-	-	-		-	-
Cumulative foreign currency translation adjustments	-	-	-	**(2,070)**	-	**(2,070)**
Balance at December 31, 2004	**131,039**	**595,194**	**(18,645)**	**(47,742)**	**(224,269)**	**435,577**

* Represents an amount lower than US$ 1,000
** With respect to discontinuance of adjustment to the effect of inflation as from the CPI of December 2003 (see Note 2B).
(1) Net of the Company holdings and its subsidiaries' holdings.

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

Consolidated Statement of Cash Flows

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
Cash flows generated by operating activities:				
Net earnings (loss) for the year	**144,990**	46,362	(766,969)	**33,656**
Adjustments to reconcile net earnings to net cash flows generated by operating activities (A)	**745,683**	728,413	1,194,420	**173,093**
Net cash inflow generated by operating activities	**890,673**	774,775	427,451	**206,749**
Cash flows generated by investing activities:				
Purchase of fixed assets	**(232,146)**	(193,424)	(260,119)	**(53,887)**
Investment grants in respect of fixed assets	**6,908**	8,482	7,583	**1,603**
Amounts charged to intangible assets and deferred expenses	**(153,206)**	(313,125)	(810,649)	**(35,563)**
Additional investments in subsidiaries	**-**	(600)	(2,802)	**-**
Acquisition of subsidiaries (B)	**(299,305)**	(14,372)	(92,746)	**(69,477)**
Investments in affiliates	**(646,672)**	(6,316)	(13,652)	**(150,110)**
Investments in loans to affiliates	**(1,680)**	(1,616)	(1,405)	**(390)**
Repayment of loans from affiliates and others	**-**	226,765	4	**-**
Proceeds from realization of investments in formerly consolidated subsidiaries, net of cash in those subsidiaries at the time they ceased being consolidated (c)	**-**	(14,182)	-	**-**
Repayment of liability in respect of subsidiary in prior years	**(28,309)**	-	-	**(6,571)**
Proceeds from realization of activity of prior year	**-**	-	11,849	**-**
Acquisition of minority in subsidiaries	**(4,762)**	-	-	**(1,105)**
Proceeds from disposal of investments in investee companies and others	**636,286**	123,742	484,355	**147,699**
Proceeds from sale of fixed assets and intangible assets	**10,519**	30,998	314,396	**2,442**
Investment in venture capital companies	**(34,928)**	(13,580)	(47,025)	**(8,108)**
Decrease (increase) in other investments, net	**(5,110)**	7,465	(58,406)	**(1,186)**
Decrease (increase) in short-term deposits and investments, net	**(8,673)**	426,348	210,804	**(2,013)**
Proceeds from realization of subsidiary's shares that became proportionately consolidated (D)	**38,239**	-	-	**8,876**
Net cash inflow (outflow) generated by investing activities	**(722,839)**	266,585	(257,813)	**(167,790)**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Consolidated Statements of Cash Flows (cont'd)

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
Cash flows generated by financing activities:				
Issuance of equity	**-**	43,011	-	**-**
Issuance of shares to minority interest in subsidiaries	**14,617**	14,137	2,928	**3,393**
Dividend paid to minority interest in subsidiaries	**(107,006)**	(56,529)	(27,104)	**(24,839)**
Payment of suppliers credit received for the purchase of fixed assets	**-**	-	(13,014)	**-**
Purchase of convertible debentures of subsidiary by its subsidiary in the market	**-**	-	(15,137)	**-**
Issuance of convertible debentures in subsidiary	**665,982**	-	136,210	**154,592**
Proceeds from principal of long-term loans and other long-term liabilities	**1,063,387**	949,392	1,551,258	**246,840**
Repayment of long-term loans, debentures and other long-term liabilities	**(1,791,112)**	(1,891,766)	(1,875,023)	**(415,764)**
Increase (decrease) in credit from banks and others, net	**26,063**	(268,028)	16,162	**6,050**
Net cash outflow generated by financing activities	**(128,069)**	(1,209,783)	(223,720)	**(29,728)**
Translation differences in respect of cash balances of autonomous foreign investee companies	**(15,858)**	(28,273)	3,056	**(3,681)**
Increase (decrease) in cash and cash equivalents	**23,907**	(196,696)	(51,026)	**5,550**
Balance of cash and cash equivalents at beginning of year	**593,403**	790,099	841,125	**137,744**
Balance of cash and cash equivalents at end of year	**617,310**	593,403	790,099	**143,294**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Consolidated Statements of Cash Flows (cont'd)

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
A. Adjustments to reconcile net earnings (loss) to cash flows generated by operating activities:				
Income and expenses not involving cash flows:				
Minority interest in subsidiaries, net	**432,888**	202,807	60,049	**100,485**
Equity in operating results of affiliates, net	**27,687**	113,823	252,091	**6,427**
Depreciation and amortization	**463,800**	440,856	423,580	**107,660**
Deferred taxes, net	**49,647**	(45,206)	64,479	**11,524**
Increase (decrease) in liabilities in respect of employee severance benefits, net	**20,619**	(49,822)	52,138	**4,786**
Net capital losses (gains) from realization:				
Fixed assets and intangible assets	**16,091**	22,863	(23,079)	**3,735**
Investments in formerly consolidated subsidiaries	**-**	(16,428)	-	**-**
Investments in investee companies	**(227,477)**	(4,852)	(342,343)	**(52,804)**
Translation differences of autonomous investee in voluntary liquidation	**-**	-	390,901	**-**
Inflationary erosion (linkage) of principal of long-term loans and other liabilities	**8,241**	(77,510)	56,490	**1,913**
Inflationary erosion (linkage) of principal of credit from banks and others	**-**	(10,565)	(11,010)	**-**
Inflationary erosion of value of investments, deposits and loans receivable	**9,314**	32,540	(19,749)	**2,162**
Impairment in value of assets and investments	**58,144**	70,503	143,400	**13,497**
	858,954	679,009	1,046,947	**199,385**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Consolidated Statements of Cash Flows (cont'd)

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
A. Adjustments to reconcile net earnings to 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)	**(71,964)**	(218,826)	300,164	**(16,705)**
Decrease (increase) in inventories, projects in progress and customer advances (including long-term customer advances and deposits)	**(319,645)**	(116,927)	52,251	**(74,197)**
Increase (decrease) in trade payables and other payables	**278,338**	385,157	(204,942)	**64,610**
	(113,271)	49,404	147,473	**(26,292)**
	745,683	728,413	1,194,420	**173,093**
B. Acquisition of subsidiaries				
Assets and liabilities of the subsidiaries at date of acquisition:				
Working capital deficit (surplus), excluding cash and cash equivalents	**(34,493)**	(12,160)	6,516	**(8,007)**
Fixed assets and investments, net	**(287,724)**	(2,404)	(36,434)	**(66,788)**
Issuance of shares by investee company	**34,238**	-	-	**7,947**
Long-term liabilities	**187,144**	192	10,280	**43,441**
Contingent liability	**-**	-	18,516	**-**
Goodwill	**(198,470)**	-	(91,624)	**(46,070)**
	(299,305)	(14,372)	(92,746)	**(69,477)**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Consolidated Statements of Cash Flows (cont'd)

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
C. 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 deficit, excluding cash and cash equivalents	**-**	(47,105)	-	-
Fixed assets and investments	**-**	8,765	-	-
Intangible assets	**-**	15,440	-	-
Long-term liabilities	**-**	(3,463)	-	-
Investments in affiliated companies, net	**-**	12,971	-	-
Capital loss on sale of investments in subsidiaries	**-**	(790)	-	-
	-	(14,182)	-	-
D. Proceeds from realization of subsidiary's shares that became proportionately consolidated				
Working capital surplus excluding cash and cash equivalents	**23,057**	-	-	**5,352**
Fixed assets	**40,851**	-	-	**9,482**
Realization proceeds receivable	**(25,544)**	-	-	**(5,929)**
Capital gain	**(125)**	-	-	**(29)**
	38,239	-	-	**8,876**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

Consolidated Statements of Cash Flows (cont'd)

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
E. Non-cash transactions:				
Purchase of fixed assets by credit	**9,172**	24,514	10,680	2,129
Purchase of other assets by credit	**28,178**	6,639	245,924	6,541
Proceeds from sale of fixed assets, formerly consolidated subsidiaries and realization of activities	**-**	15,145	-	-
Proposed dividend to minority shareholders by subsidiaries	**29,614**	15,446	-	6,874
Dividend in kind from affiliate company	**33,363**	-	-	7,744
Loans converted into shareholders' equity of subsidiary	**14,042**	-	-	3,260
Purchase of fixed and other assets and inventory in consideration of issuance subsidiary shares to minority	-	-	28,683	-
Contingent liability from consolidated subsidiary	-	-	18,516	-
Conversion of investment to loan in an affiliates	-	470	-	-

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Company Statements of Cash Flows

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
Cash flows generated by operating activities:				
Net income (loss) for the year	**144,990**	46,362	(766,969)	**33,656**
Adjustments to reconcile net income to net cash flows generated by operating activities (A)	**(136,907)**	(163,429)	310,315	**(31,780)**
Net cash outflow generated by operating activities	**8,083**	(117,067)	(456,654)	**1,876**
Cash flows generated by investing activities:				
Investee companies:				
Acquisition of shares	**(667,779)**	(17,488)	(12,007)	**(155,009)**
Loans granted\received, capital notes and non-current accounts	**34,950**	304,725	18,258	**8,113**
Purchase of fixed assets	**(423)**	(392)	(108)	**(98)**
Increase in investments and other receivables, net	**-**	(31,428)	(54,106)	**-**
Proceeds from sale of fixed assets	**-**	30	272,776	**-**
Proceeds from realization of investments in investee companies	**562,177**	102,875	454,752	**130,496**
Investment in short-term deposits and investments, net	**63,412**	460,818	197,446	**14,719**
Net cash inflow (outflow) generated by investing activities	**(7,663)**	819,140	877,011	**(1,779)**
Cash flows generated by financing activities:				
Equity issuance	**-**	43,011	-	
Receipt of long-term loans and other long-term liabilities	**637,000**	360,213	574,422	**147,864**
Payments of long-term loans and other long-term liabilities	**(628,703)**	(1,107,283)	(883,190)	**(145,938)**
Credit from banks and others, net	**11,743**	(13,600)	(148,154)	**2,726**
Net cash (outflow) inflow generated by financing activities	**20,040**	(717,659)	(456,922)	**4,652**
Increase (decrease) in cash and cash equivalents	**20,460**	(15,586)	(36,565)	**4,749**
Balance of cash and cash equivalents at beginning of year	**9,205**	24,791	61,356	**2,137**
Balance of cash and cash equivalents at end of year	**29,665**	9,205	24,791	**6,886**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Company Statements of Cash Flows (cont'd)

	Year ended December 31			Convenience translation (Note 2B) Year ended December 31
	2004	2003	2002	2004
	Reported amounts*	Adjusted in terms of NIS of December 2003		Reported amounts*
	NIS thousands			US $ thousands
(A) Adjustments to reconcile net earnings (losses) to cash flows generated by operating activities:				
Income and expenses not involving cash flows:				
Equity in operating results of investee companies in addition, net of dividend received therefrom	**47,879**	(17,120)	952,414	**11,114**
Depreciation and amortization	**2,022**	13,718	2,899	**469**
Deferred taxes, net	**(18,580)**	(58,903)	(43,798)	**(4,313)**
Increase (decrease) in liability in respect of employee severance benefits, net	**3,491**	(6,898)	5,643	**810**
Net capital losses (gains) from realization:				
Fixed assets	**-**	96	(29,189)	**-**
Investment in investee companies	**(213,249)**	(11,635)	(336,621)	**(49,501)**
Increase in value of deposits and other erosions, net	**(6,623)**	(11,260)	(10,880)	**(1,537)**
Exchange rate differences and erosion of long-term loans and other liabilities	**6,077**	(24,865)	29,083	**1,411**
Erosion (linkage) of loans from banks and others	**-**	(10,526)	5,056	**-**
Changes in value of investments and assets	**-**	673	10,037	**-**
	(178,983)	(126,720)	584,644	**(41,547)**
Changes in operating assets and liability items:				
Increase in current accounts of investee companies, net	**36,543**	(43,975)	(270,044)	**8,482**
Decrease (increase) in receivables	**(213)**	42,817	(18,118)	**(49)**
Increase (decrease) in trade payables and other payables	**5,746**	(35,551)	13,833	**1,334**
	42,076	(36,709)	(274,329)	**9,767**
	(136,907)	(163,429)	310,315	**(31,780)**
(B) Significant non-cash transactions:				
Dividend in kind from investee company	**-**	-	244,067	**-**
Proceeds from realization of affiliated company in capital note	**-**	-	27,373	**-**
Loans converted into shareholders' equity of subsidiary	**6,837**	-	-	**1,587**

* With respect to discontinued of adjustment for the effect of inflation as from the CPI of December 2003 (see Note 2B).

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

Note 1 - General

Koor Industries Ltd. is a holding company, which operates in the fields of telecommunications, defense electronics, agro-chemicals and other chemicals and venture capital investment, through its subsidiaries, proportionately consolidated companies and affiliates (hereinafter - the “Koor Group” or the “Group”).

The Company’s shares are traded both on the Tel Aviv Stock Exchange and on the New York Stock Exchange.

Note 2 - Significant Accounting Policies

The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Israel.

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. Subsidiaries – companies, including partnerships, whose statements are fully consolidated, directly or indirectly, with those of the Company.
3. Proportionately consolidated companies - jointly controlled companies, which are consolidated by the proportionate consolidation method, directly or indirectly, in Koor’s consolidated financial statements.
4. Affiliates - companies in which Koor has voting rights which give it 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.
5. Investees - subsidiaries, proportionately consolidated companies or affiliates.
6. Other companies – companies, the investment in which does not confer significant influence, which are accounted for by the cost method.
7. Interested parties - as defined in Paragraph (1) to the definition of "related parties" in Section 1 of the Israeli Securities Law, including related parties as defined in Opinion 29 of the Institute of Certified Public Accountants in Israel (“ICPAI”).

Note 2 - Significant Accounting Policies (cont'd)

A. Definitions (cont'd):

8. Controlling shareholders – as defined in the Israeli Securities Regulations (Financial Statement Presentation of Transactions between a Company and its Controlling Shareholder), 1996.

9. Venture capital fund – as defined in Standard No. 1 of the Israel Accounting Standards Board (“IASB”).

10. Venture capital investments – an investment in a company that meets the following two conditions:

    (a) The company is engaged primarily in research, development or marketing of innovative, high-technology products or processes; and

    (b) At least 90% of the company’s financing stems from owners’ capital (including shareholder loans and owner-guaranteed credit), with the support of state authorities or research grants.

11. Consumer Price Index - the Israeli Consumer Price Index (CPI) published by the Central Bureau of Statistics.

12. Dollar – U.S. dollar.

13. Adjusted amount – the historical nominal amount that was adjusted in conformity with the provisions of Opinions 23 and 34 and Opinions 36 and 37.

14. Reported amount – an amount adjusted to the transition date (December 31, 2003), plus amounts in nominal values that were added after the transition date, minus amounts that were deducted after the transition date.

15. Adjusted financial reporting – financial reporting based on the provisions of Opinions 23, 34, 36, 37 and 50.

16. Nominal financial reporting – financial reporting based on reported amounts.

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 effects of changes in the general purchasing power of the shekel will be discontinued, commencing January 1, 2004. Until December 31, 2003, the Company continued to prepare adjusted financial statements in accordance with Opinion No. 36 of the ICPAI. The Company is applying the provisions of the Standard and, accordingly, the adjustment was discontinued, as stated, commencing January 1, 2004.

(2) In the past, the Company prepared its financial statements on the basis of historical cost, adjusted to the Consumer Price Index. The adjusted amounts that were included in the financial statements as at December 31, 2003, served as the starting point for the nominal financial reporting commencing January 1, 2004. Additions made during the period were included in nominal values.

Note 2 - Significant Accounting Policies (cont'd)

B. Financial statements in reported amounts (cont'd)

(3) The non-monetary asset amounts do not necessarily represent their realizable or current economic value, but rather the reported amounts of those assets.

(4) In the financial statements, the term “cost” means cost in reported amount.

(5) The financial statements of companies classified as autonomous units, are stated based on the changes in the exchange rates of their relevant functional currencies – see 2.D below.

(6) All comparative data for earlier periods are stated adjusted to the CPI for December 2003.

C. Reporting principles

(1) Balance sheets:

a. Non-monetary items (namely – fixed assets, inventory of projects in progress and investments stated at cost) are stated in reported amounts.

b. Monetary items are stated in the balance sheet at historical nominal values as at the balance sheet date.

(2) Statements of operations:

a. Revenues and expenses deriving from non-monetary items (such as: depreciation and amortization, changes in inventory, prepaid expenses and income, etc.) or from balance sheet provisions, are derived from the change between the reported amounts in the opening balance and closing balance.

b. 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 in the reporting period is stated at nominal values.

D. Effects of the changes in foreign currency exchange rates

The Company has been applying Accounting Standard No. 13 on “The Effect of Changes in Foreign Currency Exchange Rates" since January 1, 2004. The Standard deals with the translation of foreign currency transactions and the translation of financial statements of overseas operations for their inclusion in the financial statements of the reporting corporation. The Standard prescribes rules for classifying foreign operations as an autonomous foreign unit or as an integrated unit, based on indications listed in the Standard and the use of judgment, as well as the manner in which the financial statements of autonomous held units are to be translated.

Note 2 - Significant Accounting Policies (cont'd)

D. Effects of the changes in foreign currency exchange rates

Foreign currency transactions

Transactions denominated in foreign currency are recorded when first recognized at the exchange rate prevailing on the transaction date. Exchange rate differences deriving from the discharge of monetary items, or deriving from the reporting of the Company's financial items at exchange rates that are different than those used for preliminary recording during the period, or from those reported in prior financial statements, will be charged to the statement of operations.

Foreign operations classified as an autonomous held unit

For certain investees which are domiciled in Israel, and whose revenues and most of their raw materials and fixed assets are acquired in dollars, and for which the dollar is the major currency in the economic environment in which the companies operate, the dollar constitutes the measurement and reporting currency in their financial statements. This is in accordance with the rules provided in Section 29A of Opinion 36 of the Institute of Certified Public Accountants in Israel.

The financial statements of investees operating in a foreign country as "an autonomous held unit" of the Group and companies registered in Israel, the measuring and reporting currency of which is foreign currency (dollar) as aforementioned, were translated to Israeli currency as follows:

(1) The monetary and non-monetary assets and liabilities of an overseas autonomous held unit were translated at the closing rate. The goodwill balance created in the acquisition of the overseas autonomous held unit is treated as an asset of that unit and is translated at the closing rate as of January 1, 2004.

(2) Income and expense items are translated at the exchange rate prevailing on the transaction date.

(3) All exchange rate differences created were classified as a separate item in shareholders' equity until the net investment is realized.

The impairment of an investment in an autonomous held unit overseas does not constitute partial realization. Therefore, no part of the translation differences were charged to the statement of operations when the impairment was recorded.

The financial statements of investees operating overseas that are an "integrated unit" of the Group, in accordance with the indicators provided in Standard 13 of the Israeli Accounting Standard Board, are translated from foreign currency to Israeli currency – with non-monetary items translated at the historical exchange rate prevailing on the transaction date and monetary items translated at the exchange rate prevailing on the balance sheet date. Statement of operations items are translated at the average exchange rate, 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. Differences created from the translation are charged to financing.

E. Consolidation of financial statements

(1) The consolidated financial statements include the financial statements of Koor 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.

Note 2 - Significant Accounting Policies (cont'd)

E. Consolidation of financial statements

(2) 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.

(3) 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.

(4) As to the financial statements of subsidiaries that are adjusted according to changes in foreign currency exchange rates – see Note 2.D.

(5) a. The excess cost of an investment over the fair value of its identified assets less the fair value of the identified liabilities (after allocation of the tax deriving from temporary provisions) on acquisition date, is charged to goodwill.

b. The excess cost allocated to assets and liabilities is charged to the appropriate balance sheet items.

c. Material intercompany balances and transactions between Group companies were eliminated for consolidation purposes. Likewise, material unrealized income from intercompany sales not yet realized outside the Group were eliminated.

(6) The Company’s shares that were acquired by the Company and subsidiaries are presented as treasury stock.

(7) When the sale and/or exercise of convertible securities that were issued by investees (including in respect of employee options) is probable, according to the criteria prescribed in Opinions 48 and 53 of the IACPA, and a decline in the shareholding percentage is expected when they are converted or exercised, as a result of which the holder will sustain a loss, an appropriate provision is included in respect of the anticipated loss.

(8) The Company applies Accounting Standard No. 20 on the “Goodwill Amortization Period”. Goodwill is stated in the consolidated balance sheet in “other assets and deferred expenses” and is amortized over its estimated useful life, in a methodical manner. The amortization period represents the best possible estimate of the period in which the Company expects to derive future economic benefit from the goodwill. The amortization period is not to exceed 20 years from the date of initial recognition. Accordingly, the Group companies amortize goodwill mainly over a period of 10 to 20 years.

The Standard applies to financial statements for periods beginning on or after January 1, 2004. The change in the amortization period of amortization balances as at January 1, 2004 is treated as a prospective change in estimate. These goodwill balances will be amortized methodically over the remainder of the prescribed amortization period.

F. Use of estimates:

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

Note 2 - Significant Accounting Policies (cont'd)

G. Cash and cash equivalents:

Cash and cash equivalents include short-term bank deposits and short-term government notes traded in banks, with an original maturity of three months or less and which are not restricted.

H. Marketable Securities:

(1) Marketable securities
Investments in marketable securities held for the short term as a current investment are stated at realization value on the stock market as at the balance sheet date.
Investments in marketable securities, which are permanent investments, are stated at cost (debentures - including accrued interest), as long as there has not been a decrease in value, which is not of a temporary nature (see also section (3) below).
The changes in the value of the securities are charged in full to the statement of operations.

(2) Non-marketable securities
Stated at cost (debentures - including accrued interest), which, in management's opinion is not higher than realization value (see also section (3) below).

(3) Decrease in value of investments
From time to time, the Company reviews its permanent investments in other companies to identify if there has been a non-temporary decrease in their value. Such a review is carried out where there are indications of the possibility that the value of permanent investments has been impaired, including a drop in stock market prices, the investee's businesses, the industry in which the investee operates and other parameters. The impairment in the value of these investments, which management bases on an evaluation of all the relevant aspects, giving appropriate weight to each and which is not temporary, is charged to the statement of operations.

I. Allowance for doubtful accounts:

The financial statements include allowances for doubtful accounts, which management believes fairly reflect the loss inherent in accounts whose collection is doubtful. Among the factors on which management bases its determination of the appropriateness of the allowances are an assessment of risk, based on information it has on the financial status of the 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. Inventories:

Inventories are included at the lower of cost or market value. Cost is determined as follows:
Raw materials, auxiliary materials and spare parts - at “moving average” or by the "first-in, first-out" method.
Finished goods and work-in-process – some on the basis of direct manufacturing costs (including materials, labor and subcontractor costs) plus the related part of indirect manufacturing costs, and some on an average basis (including raw materials, tools, labor) and other direct and indirect expenses.
Merchandise at "first-in, first-out" method or by the "moving average".

Note 2 - Significant Accounting Policies (cont'd)

K. Work in progress:

Inventory of long-term projects in progress is stated at cost, less the part of cost that has been charged to the statement of operations by the "percentage of completion" method. The cost includes the direct cost of materials, wages, subcontractors, other direct costs and indirect manufacturing costs allocated to the said projects (also see Note 2.5 below).

Projects in progress and customer advances in respect of long-term contracts include amounts in respect of contracts to be executed over a period exceeding one year.

Where a loss is anticipated from the project, a provision is made for the entire loss anticipated until completion of the project.

L. Venture capital investments:

The holdings of a venture capital fund in venture capital investments are stated at cost in their reported amounts, net of provisions for decline in value, if a non-temporary decline occurs. Gains from venture capital investments are charged to the statement of operations when the investment is realized.

M. Investments in investees:

(1) The investments in investees are presented by the equity method. Taken into account when computing the Company's share are losses due to the expected realization of convertible securities issued by investees, if the conversion or exercise of those securities is probable.
Taken into account when determining the equity value of the investments in these companies are the amounts as they are included in the companies' financial statements, after the adjustments necessitated by the application of generally accepted accounting principles.

(2) Regarding the goodwill amortization policy – see Note 2E(8) above.

(3) Regarding the decline in value of investments in investees – see Note 2.AD.

A list of investee companies is presented as an appendix to the financial statements.

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.

Note 2 - Significant Accounting Policies (cont'd)

O. Fixed assets:

1. The assets are stated at cost, after deduction of related investment grants.
2. Cost includes interest capitalized during the set-up period, which was calculated using the interest rates applicable to the sources used to finance the investment.
3. Improvements are charged to the cost of assets and are amortized over the economic life of the asset. Repair and maintenance expenses are charged to the statement of operations as incurred.
4. Depreciation is computed using the straight-line method, on the basis of the estimated useful lives of the assets.

   The annual depreciation rates used are as follows:

	%	
Buildings and leasehold rights	1.2-10	(mainly 2%)
Machinery, equipment and installations	5-20	(mainly 10%)
Vehicles and forklifts	10-20	(mainly 15%)
Office furniture and equipment	6-33	(mainly 6% and 25%)
Computers and auxiliary equipment	20-33	
Lease hold improvements	*10	

* or over the lease period, whichever shorter.

P. Other assets and deferred expenses:

Other assets and deferred expenses are amortized on a straight-line basis over the expected period of benefit therefrom, as follows:

1. Licensing of products and acquisition of know-how are stated at cost and are mostly amortized over eight years.
2. Marketing rights are stated at cost and amortized over periods of five to ten years.
3. Intangible assets in the purchase of products are stated at cost and are mainly amortized over 20 years.
4. Deferred expenses - debenture issue costs:
   These costs are amortized by the straight-line method over the life of the debentures - mainly six years.
5. See Note 2.E(8) regarding goodwill deriving from the acquisition of companies that were consolidated.
6. Non-compete and confidentiality agreements are mostly amortized over 5 years.

The amortization period is reevaluated periodically, based on the estimated period of economic benefit.

Note 2 - Significant Accounting Policies (cont'd)

Q. Convertible securities:

1. Debentures, the conversion of which is not probable, are included at their liability value as at the balance sheet date, in accordance with the provisions of Opinion 53 of the ICPAI, and are stated in long term liabilities. Debentures, the conversion of which is probable, are included between the long-term liabilities item and the shareholders' equity item, according to the liability value or the capital value, whichever is the higher.

2. In accordance with Opinions 48 and 53 of the ICPAI, the provision for loss on a decline in the shareholding percentage in investee companies is included in the item "minority interest" in the consolidated balance sheet, and in the item "investment in investees" in the Company balance sheet.

R. Deferred taxes:

1. Deferred taxes are calculated in respect of temporary differences between the amounts included in the adjusted financial statements and the amount taken into account for tax purposes. Such deferred taxes are allocated for differences related to assets, the consumption or depreciation of which are deductible for tax purposes. As for the main components in respect of which deferred taxes have been created - see Note 16.G.

2. Deferred tax balances (asset or liability) are computed at the tax rate expected to be in effect at the time these taxes will be utilized, or when the tax benefit will be realized, based on the tax rates and tax laws legislated or whose legislation is essentially complete by the balance sheet date.
   The deferred taxes amount in the statement of operations expresses the change in these balances during the year.

3. Taxes that would be imposed in the event of realization of investments in investees, the sale of which is not expected in the foreseeable future, are not included in deferred taxes.

   Deferred taxes were not created for taxes to be imposed on earnings distributed by subsidiaries, as it is the Company'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.

S. Revenue recognition:

Revenues and costs from work in progress under long-term contracts are recognized in accordance with Accounting Standard No. 4 ("Standard 4") published by the Israel Accounting Standards Board ("IASB"), as follows:

A. Revenues and costs from work in progress under long-term contracts will be recognized by the "percentage of completion" method, if the following conditions are met: the revenues are known or can be reliably estimated, the collection of revenues is expected, the costs involved in carrying out the project are known or can be reliably estimated, there is no material uncertainty as to the ability to complete the project and to meet the terms of the contract with the customer, and the percentage of completion may be reliably estimated.

   As long as all the conditions listed above are not met, revenue will be recognized at an amount equal to the costs incurred and the recovery of which is expected ("zero margin").

Note 2 - Significant Accounting Policies (cont'd)

S. Revenue recognition: (cont'd)

B. Revenues and costs in government contracts, which are based on cost plus a fixed margin ("cost plus"), are reported on the basis of the invoices submitted to the customer (essentially – on an accrual basis).

C. The percentage of completion is determined based on the cost (actual cost vs. projected total cost) or based on the delivery of products, depending on the nature of the agreement.

D. For contracts in which a loss is anticipated, a provision is recorded immediately for the full amount of the anticipated loss at the time it is identified by management.

E. Projected earnings or losses from long-term contracts could change as a result of changes in estimate, between the actual performance and the original estimate. Such changes in estimates are charged to the statement of operations when identified.

2. Sale of products and providing services:

Revenues from sales and services are recognized upon delivery of the products and transfer of the main risks and rewards involved in ownership of the products, or upon performance of the services.
In special contracts, sales are recognized after the work is performed and acceptance tests are passed, as prescribed in the product supply contract.

T. Sale of trade receivables:

See Note 3C(2).

U. Research and development expenses:

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.

Research and development in process -
Costs to acquire in-process research and development which have no alternative future use and which have not reached technological feasibility at the date of acquisition are expensed as incurred.

Note 2 - Significant Accounting Policies (cont'd)

V. Presentation of transactions between the Company and the controlling shareholder:

Transactions between the Company and its controlling shareholder are included in accordance with the Securities Regulations (Financial Statement Presentation of Transactions between a Company and its Controlling Shareholder), 1996. Accordingly, the difference between the price paid to the controlling shareholder on the sale of an asset and the book value of the asset to the controlling shareholder, is included in the shareholders' equity.
In addition, the amount of the erosion of an unlinked interest-free loan having no maturity date which was received from the controlling shareholder, and that the parties do not intend to repay, is included in shareholders' equity

W. Derivative financial instruments:

Koor and its subsidiaries enter into different kinds of option contracts and forward trades that are intended to reduce the financial risks (i.e. commitments for the import of raw materials, export of goods, liabilities linked to the CPI or foreign currency) involved in the exposure to fluctuations in inter-currency exchange rates, interest rates and changes in the CPI.

The results of financial derivatives held to hedge assets and liabilities are recorded in the statement of operations concurrently with the recording of the changes in the hedged assets and liabilities.
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 operation in the period they occurred.

The fair value of derivative financial instruments is determined according to their market values or quotes by financial institutions, and when such do not exist, according to a valuation model.

X. Earnings (losses) per share:

Earnings (losses) per share data are computed in accordance with Opinion 55 of the ICPAI.
Taken into account in the computation of basic earnings (losses) per share are convertible securities issued by the Company, if their conversion or exercise is probable, based on tests prescribed in the opinion.
Taken into account in the computation of fully-diluted earnings (losses) per share are convertible securities issued by the Company and its investees, that were not included in the computation of basic earnings (losses) per share, when their conversion or exercise does not increase earnings per share.

Y. 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. Likewise, separate expression is given in the statement of changes in shareholders' equity to the dividend amount to be distributed against a reduction in the retained earnings balance.

Note 2 - Significant Accounting Policies (cont'd)

Z. Segment reporting

Segment reporting is presented in accordance with Accounting Standard No. 11, which requires the inclusion of information in respect of business and geographical segments, as well as detailed guidelines for identification of the business and geographical segments.

AA. Environmental costs

The current operating and maintenance costs of facilities to prevent environmental pollution and provisions for expected costs related to the rehabilitation of the environment deriving from current or past activities, are charged to the statement of operations. Construction costs of facilities for prevention of environmental pollution, which increase the economic life or efficiency of the facility or reduce or prevent environmental pollution, are charged to the cost of the fixed assets and are depreciated in accordance with the depreciation policies practiced by the Group.

AB. Impairment of assets

The Company applies Accounting Standard No. 15 – Impairment of Assets (“the Standard”), which prescribes procedures that the Company must implement in order to assure that its assets in the consolidated balance sheet (which are subject to the Standard) are not stated at an amount exceeding their recoverable value, which is the higher of the net sales price and 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 tax assets, construction contracts 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 Company 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.

Note 2 - Significant Accounting Policies (cont'd)

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

	Israeli CPI*	Exchange rate of one Dollar
	Points	NIS
For the year ended:		
December 2004	**180.74**	**4.308**
December 2003	178.58	4.379
December 2002	182.01	4.737
	%	%
Changes during:		
2004	**1.2**	**(1.6)**
2003	(1.9)	(7.6)
2002	6.5	7.3
	%	
Real rate of increase (decrease) in the CPI relative to the exchange rate of the dollar during the year:		
2004	**2.8**	
2003	(5.7)	
2002	(0.8)	

(*) 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.

AD. Influence of new accounting standards prior to their application

In July 2004, the IASB published Accounting Standard No. 19, “Taxes on Income”, which prescribes that a deferred tax liability is to be recognized for all temporary differences that are taxable, except for a limited number of exceptions. Likewise a deferred tax asset is to be recognized for all temporary differences that are deductible, losses for tax purposes and unutilized tax benefits, if it is expected that there will be taxable income against which it will be possible to utilize them, except for a limited number of exceptions. The new Standard will apply to financial statements beginning on January 1, 2005. The Standard will be adopted as the cumulative effect of a change in accounting method.
First time application of the said Standard will have a net non-recurring impact, as at January 1, 2005, of increasing the net income by approximately NIS 19 million (which mainly derives from recording deferred taxes in an investee company in respect of unrealized profits which are anticipated to be realized in the near future).

Note 3 - Information Regarding Certain Investees

A. ECI Telecom Ltd. ("ECI") – an affiliate

1. In November 2003, a valuation of ECI was performed by an independent appraiser, for the purpose of evaluating the recoverable value of Koor's investment in ECI. In accordance with this appraisal, the Company reversed the impairment loss from decline in value that had been created in 2001, based on various indications, including a valuation for ECI. The reversal of the loss of NIS 73 million was charged against the capital reserve from foreign currency translation adjustments (credit), which was realized when the provision was created.

   At the request of the appraiser (who agreed that the Company would make use of the valuation), the Company undertook to indemnify him against any expense or financial damage he will sustain, if any, with respect to any claim to be filed by any third party against the appraiser, the cause of action of which is the valuation.

   As at December 31, 2004, the balance of the investment in ECI, stated by the equity method, is NIS 673 million.

2. In its financial statements for 2003, ECI reported on a retroactive restatement of its financial statements for 2002 and for the fourth quarter of that year, relating to a decrease in the value of its investment in an affiliate (received in exchange for the transfer of certain assets), having an effect on the investment in ECI of about 2 million dollars.

   The amount of the restatement was taken into account by the Company, when in the third quarter of 2002, it included an impairment provision for decline in value of its investment in ECI, based on a valuation obtained from an independent appraiser. Therefore, this restatement in the financial statements of ECI has no effect on the financial statements of the Company for the years 2002 and 2003.

3. On March 9, 2004, the board of directors of ECI resolved to distribute 7.6 million shares of ECtel (42% of the paid-up share capital of ECtel) as a dividend to the shareholders of ECI. The shares of ECtel were distributed on May 10, 2004, after all the requisite approvals were obtained. Prior to the distribution, ECI had held 10.5 million shares of ECtel (58% of the paid-up share capital of ECtel). Following the distribution, ECI holds 16% of the shares of ECtel and Koor directly holds 12.9% of the shares in ECtel. The investment in ECtel is presented in the financial statements of ECI and of Koor by the cost method.

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

A. ECI Telecom Ltd. ("ECI") – an affiliate (cont'd)

4. ECI prepares its financial statements in accordance with generally accepted accounting principles in the U.S. For the adjustment of ECI's net income (loss) as reported in accordance with U.S. generally accepted accounting principles (US GAAP) to the net losses according to Israeli generally accepted accounting principles:

	Year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Net gain (loss) of ECI based on its reporting according to US GAAP	**10,153**	(71,040)	(155,685)
Adjustments:			
Temporary differences resulting from recognition of revenue arising from application of SAB 101	**-**	(5,905)	(1,548)
Finance income - FAS 133	**(8,303)**	(4,843)	(3,632)
Tax expenses	**(1,529)**	(956)	645
Amortization of excess cost attributed to intangible assets	**(1,233)**	(1,556)	(1,809)
Profit from marketable securities	**(1,282)**	1,282	-
Decline in value of assets	**968**	2,452	(533)
Cumulative effect of a change in accounting method - FAS 142	**-**	-	550
Discontinued activities	**-**	-	(570)
Net loss of ECI according to Israeli GAAP	**(1,226)**	(80,566)	(162,582)

B. Tadiran Ltd. (in voluntary liquidation) ("Tadiran") – a subsidiary

On March 7, 2002, Tadiran's Board of Directors adopted a resolution to begin the voluntary liquidation of Tadiran and to appoint a liquidator. Following the liquidation, the debit balance of the capital reserve from foreign currency translation adjustments at Koor in respect of its investment in Tadiran of approximately NIS 391 million was transferred to the statement of operations.

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

C. Makhteshim Agan Industries Ltd. ("M-A Industries") – a subsidiary

1. As at December 31, 2003, Koor held 48.59% of the voting rights in M-A Industries, and taking into account the voting agreement with certain other shareholders, Koor held most of the voting rights. Therefore, the financial statements of M-A Industries for 2003 were included in the consolidated financial statements of the Company.
   In January 2004, Koor sold 27 million shares of M-A Industries for approximately NIS 418 million. The capital gain of NIS 160 million (before tax) is included in “other income”. Likewise, a tax asset of NIS 59 million which had been created in 2003, because of the expectation that the carryforward tax losses would be utilized, was realized as a result of this sale.

   As a result of this sale, and after the realization and conversion of convertible securities that had been allotted to the public and to employees, Koor’s holding percentage in the voting rights of M-A Industries at December 31, 2004 is 38.6% (32.9% on a fully diluted basis).

   Following the sale of the shares in January 2004, as a result of which Koor's shareholding percentage in M-A Industries fell below 50%, Koor evaluated the existence of effective control in M-A Industries and the implications for continuing to consolidate M-A Industries in the financial statements of Koor, beginning from the first quarter of 2004.

   In the opinion of Koor's management, the range of circumstances that weight Koor’s shareholding percentage in M-A Industries, the broad dispersal of voting rights among the other shareholders, the low level of shareholding by the other shareholders, the slim probability of the creation of a block of votes opposing Koor at shareholder meetings and past experience related to the attendance at shareholder meetings, as well as the voting percentages and opposition at the meetings, show that the economic substance that stood and continues to stand at the basis of the relationship between the Company and M-A Industries immediately before and after the said transactions demonstrates effective control, i.e., Koor’s ability to set the financial and operational policies of M-A Industries.
   See Note 27(4) regarding an additional sale of shares of M-A Industries.

2. In October 2001, M-A Industries and its subsidiaries entered into a securitization arrangement, pursuant to which those companies sold all of their trade receivables to foreign companies established for that purpose and which are neither owned nor controlled by M-A Industries ("the Special Purpose Companies"). Purchase of the receivables was financed by an American company from the Bank of America Group.

   On September 28, 2004, M-A Industries and certain subsidiaries (“the Companies”) signed an agreement with Bank of America to terminate the securitization undertaking. On that same date, the Companies entered into a new agreement with Rabobank International for the sale of trade receivables in a securitization transaction to replace the previous agreement with Bank of America. The new agreement is similar in principle to the prior agreement with certain changes including among others that in the new agreement additional M-A Indusries subsidiaries are included in the transaction.

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

C. Makhteshim Agan Industries Ltd. (M-A Industries) - subsidiary (cont'd)

2. (cont'd)

Under the terms of the new securitization agreement, the Companies will sell their trade receivables to a foreign company established for this purpose and which are neither owned nor controlled by M-A Industries ("the Purchasing Company"). The purchase of the trade receivables by the Purchasing Company will be financed by the American company Erasmus Capital Corporation of the Rabobank International Group. During the transition from the previous agreement to the new agreement, the Purchasing Company purchased the trade receivables remaining in the ownership of the Special Purpose Companies. The trade receivables included in the securitization transaction meet certain criteria, as stipulated in the agreement.

The maximum amount of financial resources expected to be made available to the Purchasing Company to purchase the trade receivables of the Companies is 250 million dollars (compared with 150 million dollars in the previous securitization agreement), on a current basis, so that the proceeds received from the customers whose receivables had been sold will be used to purchase new trade receivables.

The period in which the companies will sell their trade receivables to the Purchasing Company will be one year from the closing date of the transaction. This period may be extended, with the consent of all the parties, for additional one-year periods, up to a maximum of 4 extensions.

As at balance sheet date, cash in the amount of about 142.5 million dollars was received from the sale of customer debts (December 31, 2003 - about 125.3 million dollars).

The price at which the trade receivables are sold is the amount of the sold receivables, which are reduced based on the period expected to elapse between the date the trade receivables are sold and the date they are repaid.

On the purchase date of the receivables, the Purchasing Company will pay most of the price of the receivables in cash, and the balance in a deferred liability that will be paid after collection of the sold receivables. The percentage of the cash proceeds varies according to the behavior of the trade receivables portfolio.

The companies will bear all the losses sustained by the Purchasing Company as a result of the non-payment of the trade receivables included in the securitization transaction, up to the balance of the total unpaid balance of the sales price included in the subordinated note.

The Purchasing Company will have no recourse against the companies in respect of amounts paid in cash, except for receivables in respect of which a commercial dispute arises between the companies and their customers, i.e. a dispute with respect to the non-fulfillment of the seller's obligation in the agreement to supply the product, such as: not supplying the correct product, a defective product, a delay in the supply date, etc.

The Companies will handle the collection of the trade receivables included in the securitization transaction for the Purchasing Company.

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

C. Makhteshim Agan Industries Ltd. (cont'd)

2. (cont'd)

The essence of the accounting treatment of the sale of trade receivables in a securitization transaction is the recognition of the sale of the trade receivables only for that part for which the control and risks were transferred finally and absolutely to the purchaser. Accordingly, the trade receivable balances included in the securitization transaction, for which the consideration of cash and/or non recourse liabilities was received, were written off. In respect of the part of the trade receivables included in the securitization transaction not recognized as a sale, a subordinated note was recorded in the amount of the difference between the trade receivable balances included in the securitization transaction and the proceeds, as noted, and the recording of receivables in respect of those trade receivables sold for which proceeds were received subsequent to the balance sheet date.
A loss from the sale of trade receivables is charged at the time of sale to the statement of operations in the item “other expenses”.

Under the terms of the agreement, M-A Industries undertook to meet certain financial covenants, mainly a ratio of liabilities to capital and profitability ratios. As at the balance sheet date, M-A Industries is in compliance with the covenants.

3. In April 2001, the board of directors of M-A Industries resolved to adopt a dividend policy of distributing 15%-30% of annual net earnings, subject to the existence of distributable earnings and to specific resolutions by the board of directors.

In accordance with this policy, a dividend was declared and paid in 2004 in the amount of 32.9 million dollars (of which 7.2 million dollars is in respect of the earnings of 2003). A dividend of 11.2 million dollars was declared in December 2004 and paid in early 2005.
Subsequent to balance sheet date, another dividend was declared in respect of the earnings of 2004, in the amount of 12.7 million dollars.

4. Acquisition of companies in the report year:

a. In April 2004, M-A Industries, through a wholly-owned and controlled subsidiary, signed agreements to acquire ownership and control in a group of three companies, Vegetation Management LLC, Farm Saver.com LLC and Nation Ag II LLC ("the acquired companies"), which are engaged in the registration, import and marketing of agrochemicals in the U.S.
The total sales price amounted to NIS 303 million (the price is after an amendment to the original contract made in December 2004). NIS 34.4 million of the total sales price was paid through a transfer of 1,908 thousand shares of M-A Industries that had been held by a subsidiary (cost of shares – NIS 19.2 million).

The excess cost of investment created upon the acquisition was NIS 235.8 million, of which NIS 130.2 million was allocated to intangible assets (namely registration and licensing). The amount of NIS 2.3 million was attributed to tax liabilities and NIS 2.7 million was allocated to inventories. The balance of NIS 105.2 million was allocated to goodwill.

The excess cost allocated to licensing and registration, as well as to goodwill, are amortized over a 20-year period, which, in the estimation of M-A Industries, represents the period of economic benefit deriving from them.

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

C. Makhteshim Agan Industries Ltd. (cont'd)

4. Acquisition of companies in the report year: (cont'd)

a. (cont'd)

The statements of operations and the statements of cash flows of the acquired operations were consolidated beginning May 1, 2004.
The effect on the consolidated statement of operations of the first-time consolidation of the acquired operations is additional revenues of NIS 108 million for the period ended December 31, 2004 and an addition to net earnings (after amortization of goodwill) of NIS 25 million for that period (Koor's share in the additional net earnings is NIS 10 million). The effect on the consolidated balance sheet as at December 31, 2004 is an increase in assets of NIS 334 million.

b. In the report year, M-A Industries, through subsidiaries, signed agreements for the acquisition of three marketing companies, as follows:

1) In June 2004, M-A Industries, through a wholly owned and controlled subsidiary, signed an agreement for acquisition of 45% of the rights in the U.S. company, Control Solutions Inc. ("CSI"), which is engaged in the marketing of pesticides to the non-agricultural market in the United States.

Pursuant to the acquisition agreement, as long as the subsidiary holds 45% of the shares of CSI, decisions in areas critical to CSI are to be made jointly by all the shareholders of CSI. Therefore, CSI has been consolidated in the financial statements by the proportionate consolidation method.

In addition, the subsidiary was granted an option, which may be exercised at any time during the next three years, to increase its share in CSI to 60%, in exchange for a payment ranging between NIS 6.8 million and NIS 47.8 million, based on CSI's earnings in 2004–2006.
Furthermore, commencing in 2009, the subsidiary and the remaining shareholders of CSI have the right to require the subsidiary to acquire from the remaining shareholders of CSI the balance of their shares in CSI in consideration for an amount to be determined based on the earnings of CSI in the three years preceding the acquisition date.

2) In July 2004, M-A Industries, through a wholly owned and controlled subsidiary, signed an agreement for acquisition of all the shares and rights of Farmoz PTY Limited, an Australian company engaged in the marketing and distribution of pesticides in Australia.

3) In August 2004, M-A Industries, through a subsidiary, signed an agreement for acquisition of 50.1% of the rights in the U.S. company, RiceCo LLC, which is engaged in the development and marketing of herbicides for rice.

The aggregate acquisition cost of the acquired marketing companies was NIS 185.7 million. The excess cost created as at the acquisition date totalled NIS 140.9 million, of which NIS 68 million was allocated to intangible assets (namely registration and licensing), the amount of NIS 15.8 million was attributed to deferred tax liabilities, NIS 3.1 million was allocated to inventories, and the balance of NIS 85.6 million was allocated to goodwill.

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

C. Makhteshim Agan Industries Ltd. (cont’d)

4. Acquisition of companies in the report year: (cont'd)

b. (cont'd)

The excess cost that was allocated to registration and licensing as well as the goodwill are amortized over a 20-year period, which, in the estimation of M-A Industries, represents the period of economic benefit deriving from them.

The statements of operations and the statements of cash flows of the three marketing companies were consolidated from their acquisition date. The total effect of the first-time consolidation of the acquired marketing companies on the consolidated statement of operations is additional revenues of NIS 207 million for the period ended December 31, 2004 and a decrease in net earnings (after amortization of goodwill) of NIS 1 million during that period. The effect on the consolidated balance sheet as at December 31, 2004 is an increase in assets of NIS 314 million.

5. In a private placement to institutional investors (mainly overseas) in March 2004, M-A Industries allotted non-marketable convertible debentures in the amount of 150 million dollars par value (including 5 million dollars which was issued to the underwriters in April 2004), in consideration for their par value. See Note 15B(1).

6. In March 2004, a subsidiary of M-A Industries transferred to a third party, in an off-exchange transaction, 7 million shares of M-A Industries it had held. Under the terms of the agreement, the proceeds will be paid by the end of one year from the transfer date, whether in cash, based on the share price on the stock exchange on such date, or whether in the shares of M-A Industries plus an increment of 0.5% of the share price on the stock exchange. Since the cash proceeds have not yet been received, no capital issuance was recorded by M-A Industries in respect of the transferred shares.
During the second quarter, 1,908 thousand shares of the above shares were returned, for the purpose of paying the consideration for the acquisition of a group of companies in the U.S., as discussed in Note 3(C)(4)(a) above.
Subsequent to balance sheet date an additional 750 thousand shares were returned and an extension was granted with respect to the rest of the shares.
See Note 27(1) regarding the purchase of MABENO.

7. On February 3, 2005, Koor sold 15.9 million shares of M-A Industries for NIS 374 million. The resultant gain of NIS 204 million will be charged in the Company's financial statements for the first quarter of 2005. As a result of the sale, the utilization of carryforward tax losses is certain. Therefore, the Company recorded a deferred tax asset of NIS 69 million in the reporting period - (see Note 27(4)).

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

D. Telrad Networks Ltd. ("Telrad") – a subsidiary

1. On September 28, 2004, Koor and Telrad Holdings, a wholly-owned subsidiary ("the Koor Group") entered into an agreement to sell 39% of its holdings in Telrad Networks to Fortissimo GP Capital Fund L.P. ("Fortissimo") for 21 million dollars.
The sale will be effected in two stages. In the first stage, which was closed in November 2004, Koor transferred 19.5% of the Telrad Networks shares to Fortissimo for consideration of 10.5 million dollars. In the second stage, to be closed 180 days after the closing of the first stage, Fortissimo will transfer the balance of the consideration, amounting to 10.5 million dollars, and will receive the balance of the sold shares.
The Koor Group and Fortissimo agreed on a formula, whereby if Fortissimo does not transfer the entire balance in the second stage, it will receive shares on a basis proportionate to the consideration paid. In such a situation, there are cases in which changes will be made to the composition of the board of directors, in the voting rights given to the minority shareholders, in the loan amounts and in the options terms, as described below.

Fortissimo was given an option, exercisable for a period of up to 48 months from the closing date of the first stage, to acquire additional shares from the Koor Group, whereby Fortissimo's total holdings will not exceed 49% of the shares of Telrad Networks. The exercise price will be determined according to the value of Telrad Networks, which will not be less than its shareholders' equity in the financial statements on the exercise date.

As part of the share-sale agreement, the parties agreed that upon the closing of the first stage of the sale, the Koor Group would transfer 9.5 million dollars as a loan to Telrad Networks, and with the closing of the second stage, would transfer an additional 11.5 million dollars. These loans will bear annual interest of Libor+2% per annum, and will mature 20 years from the closing date of the first stage.
On the closing date of the first stage, the Koor Group provided Telrad Networks with the said 9.5 million dollar loan. As at December 31, 2004, based on estimates by the Company's management, forecasts on the operating results of Telrad Networks and a range of indemnifications provided in the transaction, the management of Koor Group assessed that the value of the loan was impaired. Therefore a provision was recorded in the amount of the net loss that will be incurred by the Group.

As to the indemnifications given by the Koor Group as part of this transaction, see Note 18A(5)(C).

Pursuant to the sale agreement, Telrad's board of director appointed 3 directors from Koor, 3 directors from Fortissimo, and an outside expert with the consent of the parties, who, as at the publication date of the financial statements, was not as yet appointed.

The agreement stipulates a list of matters which must be approved by the joint consent of the Koor Group and Fortissimo, including: approval Telrad's budget, appointment of Telrad's executives and determining their terms of employment and a dividend distribution. Those rights confer to the minority shareholders the right to actually participate in the significant decisions related to the Telrad's normal course of business, and, therefore, prevent Koor's Group, the majority shareholder, from actual control over Telrad Networks and require the joint consent of Koor and Fortissimo in decisions on matters that are critical for the operating objectives of Telrad.
Therefore, beginning from the fourth quarter of 2004, Telrad is included in Koor's financial statements by the proportionate consolidation method, at a rate of 80.5%.

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

D. Telrad Networks Ltd. (cont'd)

1. (cont'd)

Below is the Company's share in the balance sheet date of Telrad as at December 31, 2004 (in NIS thousands):

Current assets	296
Non-current assets	144
Current liabilities	197
Long-term liabilities	91

The Company's share in the results of Telrad at the fourth quarter of 2004 (in NIS thousands):

Income	93
Costs and expenses	155

2. During the report period Telrad recorded an impairment of its deferred tax assets by NIS 67 million, due to changes in management's estimation of the probability of utilization of the company's carryforward tax losses.

3. In 2004, Telrad's board of directors approved a reorganization plan that includes additional employee layoffs in addition to prior early retirement plans in 2000 to 2002. The financial statements for 2004 included in the item "other income (expenses), net" an expense of NIS 29 million (of which NIS 3 million is in respect of previous plans) (expenses of reorganization plan in 2003 and 2002 totaled NIS 2 million and NIS 107 million, respectively).

E. Elisra Electronic Systems Ltd. ("Elisra") – a subsidiary

1. On March 17, 2001, a fire broke out at the plants of Elisra's subsidiaries - Tadiran Systems Ltd. and Tadiran Spectralink Ltd. ("the companies"). The fire caused damage to equipment, building, inventories and projects in progress. The book value of the equipment, inventories and identified costs in projects in progress that were damaged in the fire, together with the building restoration costs and other costs, are estimated at approximately 36 million dollars. As at the balance sheet date, advances were received from the insurance company of approximately 10 million dollars. The claim sent by the companies to the insurance company, which was based on the terms of the insurance policy, also include a demand for amounts related to consequential damage and other damages that, in the opinion of the companies, is covered by the insurance policy. Therefore, the total amount of the claim is significantly higher than the book value damage and restoration cost of the building, as aforesaid.
The companies took legal measures to receive insurance compensation and even filed a lawsuit in Tel Aviv District Court against the insurance company and its appraisers in the amount of 96 million dollars. In view of the duration of the proceedings, the managements of the companies decided to classify the balance of the income receivable from the insurance companies as a long-term receivable.

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

E. Elisra Electronic Systems Ltd. ("Elisra") – a subsidiary (cont'd)

1. (cont'd)

In the estimation of the companies, based on factors including opinions from their counsel on this matter, it is difficult to estimate at this stage what the chances are that the companies will receive the full amount of the claim, although they are assessed as solid. Nonetheless, the managements of the companies, based, as aforesaid, on the opinions of their counsel on this matter, estimate that the chances are good that indemnification will be received from the insurance company at an amount exceeding the balance of the receivable recorded by them as assets in the financial statements.

In April 2004, the companies filed a motion with the court to issue a partial ruling of 33 million dollars (beyond the advances already paid by the insurance company), based on the admission of liability by the insurance company and its representatives deriving from the insurance incident, whereas the dispute focuses on the level of damages.
In December 2004, a hearing was held in the Court in which a ruling was put into effect, with the consent of the parties, whereby a separate bank account would be opened, in which the insurance company would deposit 15 million dollars. Any withdrawal from this account would require the Court's approval, until the conclusion of the proceedings in the lawsuit. According to the above agreement, the lawsuit was sent to arbitration before retired Supreme Court Justice Prof. Yitzhak Zamir, and at this time, the court proceedings will be stayed until the end of the arbitration.

2. In July 2002, the Company, Elisra and Elta Electronic Industries Ltd. ("Elta" or "the Buyer") signed an agreement ("the Purchase Agreement"), whereby Koor sold 30% of Elisra's shares to Elta for 100 million dollars. The sale was closed in November 2002. As a result of the sale, Koor recorded a capital gain in 2002 of NIS 339 million, under the item "other income, net".

In addition, Koor granted options to Elta, exercisable until December 31, 2003, to increase its holdings in Elisra by up to an additional 8% in consideration of a maximum sum of approximately 26 million dollars. This option expired and was not exercised by Elta. Under the Purchase Agreement, Koor agreed to indemnify Elta if certain conditions, set out in the Agreement, are fulfilled. Also see Note 18A(3).

As part of the agreement between Koor and Elta, an agreement was signed, to which Elisra is a party, setting forth the structure of Elisra's board of directors and the decision-making process, as well as certain limitations with respect to the sale of Elisra's shares. In addition, a cooperation agreement was signed between Elisra and Elta, with regard to activities between the companies, including a proposal for an agreed range of products and the principles for selecting a project leader from time to time.

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

F. Koor Corporate Venture Capital ("Koor CVC") – a consolidated partnership

1. Regarding commitments to invest and other investments subsequent to balance sheet date, see Note 18B(5).
2. During the current year, Koor CVC's management estimated that the value of the portfolio investments was lower than their cost, and therefore decided to write-down the value of the investment by approximately NIS 58 million (in 2003 and 2002 – NIS 72 million and NIS 93 million, respectively).
3. In June 2004, Cisco Systems purchased all the shares of Riverhead Inc. from its shareholders for consideration of 39 million dollars. The share of Koor CVC in the proceeds is 7 million dollars. The gain to Koor CVC is NIS 17 million.

G. Knafayim Holdings Arkia ("Knafayim") - affiliate

1. During 2003 and in the first quarter of 2004, Knafayim acquired shares, which did not confer the status of related party, and various types of options of El Al Israel Airlines Ltd. ("El Al").
   During the second quarter of 2004, after receiving the requisite approval to increase its stake in the shares of El Al above 5%, Knafayim exercised some of the options. Thus, after the exercise, Knafayim held 22% of El Al's issued share capital. Pursuant to a third-party voting agreement, Knafayim held 24.9% of the voting rights of El Al. During the third quarter of 2004, Knafayim filed a request with the State of Israel, which holds a special share in El Al, for approval to increase its stake in El Al above 25%.
   On August 5, 2004 the Anti-Trust Commissioner approved the merger between Knafayim and El-Al, with restrictive conditions, mainly regarding the sale of Knafayim's aviation activities to an independent third party.
   On December 22, 2004, Knafayim received the requisite approval to increase its stake in the shares of El Al to 40%, and to a shareholding that would grant control over El Al. Upon receipt of this approval, Knafayim exercised part of the purchase option so that as of December 31, 2004 Knafayim holds approximately 39.8% of the issued and paid shares of El Al and approximately 42.8% of the voting rights in El Al according to authorization that was granted to Knafayim by a third-party.

2. On September 29, 2004 the Company signed two agreements to sell 16% of the shares of Knafayim for approximately NIS 121 million. In the statement of operations for the third quarter of 2004, the Company recorded a gain of NIS 43 million. As a result of the sale, the Company's shareholding in Knafayim decreased from approximately 28.3% to approximately 12.2%. Accordingly, the investment in Knafayim is stated by the cost method, beginning from the date of the sale.
   In addition, on September 29, 2004, the Company signed an agreement for the sale of an additional 3% of the shares of Knafayim for approximately NIS 23 million. The conditions for closing the sale were fulfilled on October 20, 2004. Therefore a gain of approximately NIS 8 million was recorded in the fourth quarter of 2004.
   As of the balance sheet date, the Company holds approximately 9% of Knafayim. Since management intends to sell the remainder of the shares in Knafayim, the investment is presented within current assets. As a result of management's intention to sell the remainder of its holding in Knafayim, the Company recorded deferred taxes of approximately NIS 8 million during the reporting period in respect of the anticipated utilization of carryforward tax losses.

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

H. Tadiran Communications Ltd. ("Tadiran Communications") - an affiliated Company

1. On September 10, 2004 the Company signed an agreement to acquire about 33% of the shares of Tadiran Communications (about 31% taking into consideration stock options the exercise of which is probable) from two shareholders for approximately NIS 637 million (approximately 144 million dollars). Tadiran Communications develops, manufactures and markets communication devices and systems mainly for military purposes. The sale was closed in November 2004. The purchase was financed by a loan received from an Israeli bank in consideration for a lien in favor of the bank on the sold shares.

   Excess cost created on the acquisition date totaled NIS 490 million (111 million dollars), which was allocated based on the valuation received from an independent appraiser.
   At the request of the appraiser (who agreed that the Company would make use of the valuation), the Company undertook to indemnify him against any expense or financial damage he will sustain, if any, with respect to any claim to be filed by any third party against the appraiser, the cause of action of which is the valuation.
   Provided below is the allocation of excess cost (according to a holding rate of 31%):

	NIS millions
Current assets	14
Investments and long-term receivables	1
Fixed assets	1
Intangible assets (1)	308
Goodwill (2)	242
Current liabilities	19
Long-term liabilities	3
Deferred taxes (3)	(98)

   (1) The intangible assets include NIS 20 million allocated to in-process research and development, which were charged to the statement of operations on the acquisition date, in accordance with the provisions of FIN 4. The balance of NIS 288 million was allocated to intangible assets with an average life of seven years, according to the following breakdown: NIS 14 million allocated to brand name, NIS 173 million allocated to customer list, NIS 98 million allocated to technology and NIS 3 million allocated to the orders backlog.

   (2) Useful life of goodwill is estimated at 10 years.

   (3) Deferred taxes deriving from the allocation of excess cost.

2. On December 27, 2004, Koor entered into a series of agreements with Elbit Systems Ltd. (“Elbit”) and with Federman Enterprises Ltd. ("Federman"). Under the terms of the agreements, Koor will sell its entire holdings in Tadiran Communications (33%) to Elbit for 146 million dollars ("Elbit sale"). Concurrently, Koor will acquire 9.8% of Elbit's share capital from Federman for 99 million dollars ("Federman sale"). On the date the agreements were drafted, Elbit held 4.2% of the shares of Tadiran Communications and Federman held 50% of Elbit's shares. On March 1, 2005, a general meeting of the shareholders of Elbit ratified the Elbit sale.

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

H. Tadiran Communications Ltd. ("Tadiran Communications") - an affiliate (cont'd)

2. (cont'd)

The two sales are interconnected and will be executed - subject to the conditions stipulated in the agreements, including approval of the Anti-Trust Commissioner and other approvals - in two stages.

In the first stage, Koor will sell 13.8% of Tadiran Communications to Elbit for 63 million dollars and concurrently Koor will acquire 5.3% of the shares of Elbit from Federman for 53 million dollars. The closing date for the first stage will be in the second quarter of 2005, or at a later date, if so agreed by the parties. After the closing of the first stage, Koor will be entitled to appoint one director to Elbit's board, and Elbit will be entitled to appoint three of the members of Tadiran Communications' board of directors.

In the second stage of the transaction, Koor will sell the balance of its holdings in Tadiran Communications (19.2%) to Elbit for 83 million dollars and concurrently will acquire 4.5% of the shares of Elbit for 46 million dollars. In addition to the aforementioned conditions, the second stage is contingent on the closing of a transaction in which Tadiran Communications will acquire from Koor the holdings of Koor (70%) in Elisra Elecronic System Ltd.

The closing date for the second stage of the agreements was scheduled for September 30, 2005. If all the other conditions are fulfilled, but the Elisra transaction has not been closed, the date will be postponed to April 30, 2006 or to another date agreed upon by the parties.

After both stages in the Elbit sale and the Federman sale are executed, Koor will no longer hold shares of Tadiran Communications, although it will hold 9.8% of the Elbit shares and will have the right to appoint 20% of Elbit's directors. One of the directors nominated by Koor willl serve as Vice Chairman of the Board of Directors of Elbit.

It was further agreed by the parties that if the second stage of the sales is not closed within sixteen months of the signature date of the agreements, then the board of directors of Tadiran Communications will be comprised in a manner whereby Koor and Elbit will have the same number of directors in the board of directors of Tadiran Communications, and there will be rotation of two-year terms for the chairman of the board, with Koor's candidate being the first to serve.

Note 4 - Short-Term Deposits and Investments

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Marketable securities [1]:				
Debentures	**122,706**	141,221	**117,110**	132,218
Short-term Treasury notes	**145,927**	74,628	**81,901**	74,628
Shares and options	**106,773**	56,010	**99,630**	48,753
Mutual fund participation certificates	**-**	5,618	**-**	-
	375,406	277,477	**298,641**	255,599
Deposits in banks and financial institutions	**37,584**	89,161	**-**	55,207
Short-term loans and current maturities of long-term loans	**3,478**	171	**-**	-
	416,468	366,809	**298,641**	310,806

(1) Presented at market value.

Note 5 - Trade Receivables

Consolidated:

	December 31	
	2004	2003
	NIS thousands	
Open accounts	**1,877,696**	1,732,827
Deferred promissory note and receivables from sale of customers' debts*	**261,004**	250,492
Post dated checks receivable and credit card companies	**29,920**	43,561
Current maturities of long-term trade receivables	**4,979**	25,581
	2,173,599	2,052,461
Including:		
Net of allowance for doubtful accounts	**121,922**	106,305

* See Note 3C(2).

Note 6 - Other Receivables

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Government agencies	**195,708**	126,043	**357**	7
Deferred taxes, see Note 16G	**171,310**	156,030	**77,483**	58,903
Accrued income	**31,639**	31,289	**390**	717
Prepaid expenses	**48,498**	45,712	**-**	-
Employees	**8,524**	8,855	**-**	-
Affiliates - current accounts	**643**	2,378	**376**	-
Others	**72,661**	82,863	**5,432**	8,147
	528,983	452,170	**84,038**	67,774

Note 7 - Inventories and Work in Progress

Consolidated:

	December 31	
	2004	2003
	NIS thousands	
A. Inventories and work in progress, net of customer advances		
Presented as current assets:		
Industrial inventory:		
Raw and auxiliary materials	**712,021**	570,455
Goods and work in progress	**228,122**	199,748
Finished goods	**1,171,574**	1,024,181
Advances in respect of materials	**13,974**	4,562
Inventories for trading operations -merchandise, including advance payments	**169,194**	91,591
	2,294,885	1,890,537
Less - customer advances	**-**	4,786
	2,294,885	1,885,751
B. Customer advances, net of work in progress		
Presented as current liabilities:		
Customer advances in respect of work in progress[1][2]	**211,297**	156,831
Less - inventory and work in progress	**90**	390
	211,207	156,441

(1) Not including long-term advances

(2) See Note 22 regarding guarantees provided for securing the gross amounts of customer advances (including long-term advances).

Note 7 - Inventories and Work in Progress (cont'd)

		December 31	
		2004	2003
		NIS thousands	
C.	**Financial value of contracts signed during the report period**	**902,621**	736,517
D.	**The balance of the financial value of existing contracts which were not recognized as revenues as at the balance sheet date**	**1,990,684**	2,245,371

Note 8 - Investments in Investee companies

A. Consolidated balance sheet - affiliates

	December 31	
	2004	**2003**
	NIS thousands	
Net asset value of the investments (1)(2)	**882,854**	902,343
Goodwill and original difference (2):		
Original amount	**491,044**	66,465
Accumulated amortization	**(26,859)**	(51,395)
	464,185	15,070
Long-term loans (3)	**28,121**	26,351
	1,375,160	943,764

(1) As follows:

	2004	2003
Net asset value of investments as at December 31, 1991	**277,159**	277,159
Changes from January 1, 1992:		
Cost of shares acquired or received	**1,427,857**	1,266,706
Accumulated losses, net	**(744,819)**	(708,007)
Changes in capital reserves and foreign currency translation adjustments	**(32,626)**	(11,648)
Initially consolidated subsidiaries, net	**465,193**	465,193
Disposals, net	**(509,910)**	(387,060)
	882,854	902,343

(2) Including investments in companies traded on the Stock Exchange in Tel Aviv or abroad, in NIS millions:

	2004	2003
Carrying value at the balance	**1,275**	862
Market value as at balance date	**1,754**	985

(3) Linkage terms and interest rates relating to long-term loans:

	2004	2003
Linked to the CPI - bearing interest at the rate of 5.5%, without maturity date	**22,335**	20,470
Linked to the Dollar - bearing interest at the rate of LIBOR + 1%, without maturity date (*)	**5,786**	5,881
	28,121	26,351

(*) On December 31, 2004, the LIBOR rate is 3.1%.

Note 8 - Investment in Investee Companies (cont'd)

B. Company balance sheet - investees

	December 31	
	2004	2003
	NIS thousands	
Shares:		
Net asset value of the investments	**1,729,813**	1,940,588
Goodwill and original differences:		
Original amount, net	**556,043**	158,187
Accumulated amortization	**(57,236)**	(90,179)
	498,807	68,008
Book value (1)	**2,228,620**	2,008,596
Payments on account of shares (1)	**60,927**	60,927
Long-term loans and capital notes (2)	**1,307,998**	1,379,561
Non-current inter-company accounts (3)	**4,012**	3,982
	3,601,557	3,453,066

(1) As follows:

	2004	2003
Cost of shares including accumulated earnings as at December 31, 1991	**2,032,681**	2,032,681
Changes from January 1, 1992:		
Cost of acquired shares	**7,714,479**	7,055,603
Accumulated losses, net	**(4,467,604)**	(4,432,466)
Changes in capital reserves and erosion of capital notes, net	**(33,483)**	14,648
Disposals	**(2,956,526)**	(2,600,943)
Book value, including payments on account of shares (4)	**2,289,547**	2,069,523

Note 8 - Investment in Investee Companies (cont'd)

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

	December 31	
	2004	**2003**
	NIS thousands	
(2) Long-term loans and capital notes:		
Long-term loans (a) (b)	**93,476**	65,633
Capital notes - unlinked and not bearing interest (c)	**1,251,902**	1,316,457
	1,345,378	1,382,090
Less - current maturities of long-term loans	**(37,380)**	(2,529)
	1,307,998	1,379,561

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

	Interest rate at December 31	December 31	December 31
	2004	**2004**	**2003**
	%	NIS thousands	
Linked to the Dollar	3	**42,765**	12,184
Linked to the CPI	7-2	**41,803**	43,205
Linked to the CPI	No interest	**8,908**	10,244
		93,476	65,633

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

	December 31	December 31
	2004	**2003**
	NIS thousands	
Second year	**5,385**	-
Third year	**-**	5,474
Fourth year	**-**	6,710
Fifth year	**-**	-
Thereafter	**50,711**	50,920
	56,096	63,104

(c) Capital notes are not presented at their present value, since their repayment date has not yet been fixed by the parties.

Note 8 - Investment in Investee Companies (cont'd)

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

(3) Non-current inter-company accounts:

	December 31	
	2004	2003
	NIS thousands	
Linked to the Dollar	**599**	569
Unlinked-bears interest at the rate of the increase in the CPI	**3,413**	3,413
	4,012	3,982

	December 31	
	2004	2003
	NIS millions	
(4) Including investments in marketable shares traded on the Tel Aviv Stock Exchange or abroad in NIS millions:		
Carrying value	**754**	498
Market value as at balance date	**960**	867

Note 9 - Other Investments and Receivables

A. Composition:

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Deposits in banks and in financial institutions	**47,278**	49,180	**32,028**	32,028
Non-current trade receivables	**5,229**	9,362	**-**	-
Long-term loans receivable from others	**113,637**	73,498	**-**	-
Total (see Note B above)	**166,144**	132,040	**32,028**	32,028
Marketable securities	**33,471**	1,625	**-**	-
Venture capital investment	**171,207**	230,390	**-**	-
Indemnification receivable for fire damages [(1)]	**111,508**	113,346	**-**	-
Non-marketable shares and payments on account	**1,040**	1,036	**1,040**	1,036
Others	**5,661**	4,947	**107**	113
	489,031	483,384	**33,175**	33,177

(1) See Note 3E(1)

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

B. Classification by linkage terms and interest rates of deposits, non - current debts of customers and long - term loans from others:

Consolidated:

	Interest rates at December 31	December 31	
	2004	2004	2003
	%	NIS thousands	
Linked to the CPI	Mainly 5.7	**36,228**	39,028
Linked to the foreign currency (mainly to the Dollar)	Mainly 0	**106,715**	93,012
Linked to dollar	Libor* + 2%	**12,757**	-
Unlinked	-	**10,444**	-
		166,144	132,040

* As at December 31, 2004 the Libor rate is 3.1%.

Company:

		December 31	
		2004	2003
		NIS thousands	
Linked to the CPI	5.7	**32,028**	32,028

C. Repayment schedule of deposits, non-current customers balances and long-term loans from others, in the consolidated balance sheet:

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Amounts collectible in the:				
Second year	**75,680**	50,094	**32,028**	-
Third year	**19,957**	45,958	**-**	32,028
Fourth year	**13,748**	8,230	**-**	-
Fifth year	**3,852**	3,909	**-**	-
Thereafter and without a specific maturity date	**52,907**	23,849	**-**	-
	166,144	132,040	**32,028**	32,028

Note 10 - Fixed Assets

A. Consolidated

	Land (including leasehold land)	Buildings	Machinery, equipment and installations	Vehicles and forklifts	Office furniture and equipment	Tools and instruments	Installations under construction and payments on account of acquisition of assets	Total
	NIS thousands							
Cost as at January 1, 2004	115,651	1,705,294	3,751,016	39,455	202,506	3,167	822	5,817,911
Additions during the year	**679**	**34,908**	**146,112**	**9,042**	**18,391**	**-**	**764**	**209,896**
Disposals during the year	**(8)**	**(5,446)**	**(18,403)**	**(13,261)**	**(3,185)**	**-**	**(92)**	**(40,395)**
Adjustments resulting from foreign currency translation differences*	**(257)**	**(7,153)**	**(41,928)**	**(465)**	**(283)**	**-**	**71**	**(50,015)**
Acquisition of subsidiaries, net	**932**	**2,694**	**2,973**	**2,962**	**5,685**	**-**	**-**	**15,246**
Company that became proportionately consolidated	**(4,184)**	**(31,526)**	**(55,397)**	**(157)**	**(6,973)**	**-**	**-**	**(98,237)**
Balance as at December 31, 2004	**112,813**	**1,698,771**	**3,784,373**	**37,576**	**216,141**	**3,167**	**1,565**	**5,854,406**
Accumulated depreciation as at January 1, 2004	1,233	652,118	2,072,799	21,029	130,618	-	-	2,877,797
Additions during the year	**46**	**38,812**	**159,431**	**5,294**	**22,876**	**-**	**-**	**226,459**
Disposals during the year	**-**	**(2,054)**	**(16,256)**	**(8,162)**	**(2,250)**	**-**	**-**	**(28,722)**
Adjustments resulting from foreign currency translation differences*	**(13)**	**(1,698)**	**(23,920)**	**(709)**	**(2,094)**	**-**	**-**	**(28,434)**
Acquisition of subsidiaries, net	**-**	**372**	**1,189**	**1,155**	**1,592**	**-**	**-**	**4,308**
Company that became proportionately consolidated	**(82)**	**(9,178)**	**(48,301)**	**(155)**	**(3,900)**	**-**	**-**	**(61,616)**
Balance as at December 31, 2004	**1,184**	**678,372**	**2,144,942**	**18,452**	**146,842**			**2,989,792**
Write down for decline in value	**-**	**11,707**	**-**	**-**	**-**	**-**	**-**	**11,707**
Net book value as at December 31, 2004	**111,629**	**1,008,692**	**1,639,431**	**19,124**	**69,299**	**3,167**	**1,565**	**2,852,907**
Net book value as at December 31, 2003	114,418	1,041,469	1,678,217	18,426	71,888	3,167	822	2,928,407

* See Note 2B(5)

Note 10 - Fixed Assets (cont'd)

A. Consolidated (cont'd)

(1) Some of the real estate properties have not yet been registered in the Land Registry Office in the name of the subsidiaries, in some cases because of the absence of formal parceling of the area.

Leasehold rights are for a period of 49 years, ended in the year 2004 and thereafter. Certain leases provide an option for extension for another 49 years.

The cost of leasehold real estate as at December 31, 2004, is approximately NIS 751 million, of which approximately NIS 402 million is under capitalized lease.

(2) After deduction of investment grants, net of depreciation, which have been received from the State of Israel by certain subsidiaries under the terms of the Law for the Encouragement of Capital Investments, 1959, amounting to NIS 553 million and NIS 181 million as at December 31, 2004 and 2003, respectively (see also Note 16A).

(3) Includes capitalized interest amounting to about NIS 137 million and about NIS 141 million to December 31, 2004 and 2003, respectively.

(4) As for amounts charged to cost of fixed assets, see Notes 23B and E.

(5) Including fully depreciated assets amounting to NIS 895 million to December 31, 2004.

(6) See Note 22 regarding liens.

B. Company

Composition of the assets and accumulated depreciation, according to major groups, and changes therein during the current year, are as follows:

	Offices and land(*)	Office Equipment	Total
	NIS thousands	NIS thousands	NIS thousands
Cost as at January 1, 2004	36,275	5,370	41,645
Additions during the year	-	423	423
Balance as at December 31, 2004	**36,275**	**5,793**	**42,068**
Accumulated depreciation as at January 1, 2004	4,252	2,363	6,615
Additions during the year	721	541	1,262
Balance as at December 31, 2004	**4,973**	**2,904**	**7,877**
Write down for decline in value	11,707	-	11,707
Net book value as at December 31, 2004	**19,595**	**2,889**	**22,484**
Net book value as at December 31, 2003	20,316	3,007	23,323

(*) Represents the ownership of two stories in an office building in Tel Aviv and leasehold rights to land in Dimona, in an area of 27 dunams, not yet registered in the Company's name.
The offices have not as yet been registered in the name of the Company at the Land Registry Office. The offices are on land leased under a capital lease for a period of 49 years ending in 2044.

Note 11 - Intangible Assets, Deferred Tax Assets and Deferred Expenses

A. Consolidated balance sheet

	December 31	
	2004	**2003**
	NIS thousands	
Intangible assets-goodwill:		
Original amounts	**859,238**	714,841
Accumulated amortization	**348,568**	298,430
	510,670	416,411
Licensing of products abroad:		
Original amounts	**1,144,717**	783,206
Accumulated amortization	**474,767**	413,741
	669,950	369,465
Intangible assets in the purchase of products:[(1)]		
Original amounts	**1,211,508**	1,231,476
Accumulated amortization	**177,429**	100,993
	1,034,079	1,130,483
Marketing rights and others:		
Original amounts	**186,940**	189,757
Accumulated amortization	**67,503**	52,654
	119,437	137,103
Deferred expenses:		
Debentures issuance costs:		
Original amount	**16,069**	10,799
Accumulated amortization	**5,480**	3,715
	10,589	7,084
Deferred taxes receivable (see Note 16(G))	**12,733**	60,537
	2,357,458	2,121,083

[(1)] Including intellectual property rights, trade mark, technological know-how, etc.

Note 12 - Credit from Banks and Others

A. Composition:

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
From banks	**1,084,944**	914,260	**181,452**	169,709
Current maturities of long-term loans and debentures	**653,512**	663,142	**538,278**	418,826
	1,738,456	1,577,402	**719,730**	588,535

See also Note 15A

B. Classification by linkage terms and interest rates:

	Interest rates at December 31 2004	Consolidated December 31	
		2004	2003
	%	NIS thousands	
Linked to foreign currency (mainly to the Dollar)	3.0 - 16.9 (mainly 3.5 - 4.8)	**753,900**	647,098
Unlinked	1.8 -11.4 (mainly 10.6)	**331,044**	267,162
		1,084,944	914,260

	Interest rates at December 31 2004	Company December 31	
		2004	2003
	%	NIS thousands	
Linked to the Dollar	3.5 – 4.8	**166,427**	169,704
Unlinked	5.5	**15,025**	5
		181,452	169,709

C. See Note 22 regarding liens to secure credit.

Note 13 - Trade Payables

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Open debts	**1,660,762**	1,337,442	**379**	484
Cheques and notes payable	**6,693**	5,341	**4**	19
	1,667,455	1,342,783	**383**	503

Note 14 - Other Payables

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Employees and withholdings remitted	**162,639**	162,035	**3,213**	291
Provision for vacation pay and vacation expense allowance	**93,436**	100,006	**4,795**	3,353
Expenses to be paid	**360,760**	252,491	**22,932**	21,341
Government agencies (including taxes)	**252,894**	192,770	**1,217**	2,143
Provision for warranty and repairs and provision for losses in respect of long-term contracts	**104,171**	*87,695	**-**	-
Payables for purchase of assets and investees	**30,036**	*27,588	**-**	-
Severance pay payable and current portion of early retirement pensions (see Note 17)	**59,873**	87,438	**122**	134
Dividend proposed by subsidiary	**29,615**	15,231	**-**	-
Deferred income	**23,037**	43,148	**-**	-
Liability in respect of securities that were sold short	**24,241**	67,515	**-**	-
Liabilities regarding forward transaction	**46,388**	57,061	**4,997**	9,457
Others	**182,352**	*177,239	**11,856**	6,547
	1,369,442	1,270,217	**49,132**	43,266
Includes interested parties			**712**	1,544

* Reclassified

Note 15 - Long Term Liabilities

A. Loans

		Consolidated		Company	
		December 31		December 31	
		2004	2003	2004	2003
		NIS thousands	NIS thousands	NIS thousands	NIS thousands
1.	Loans from banks	**2,859,180**	3,668,341	**1,995,835**	1,875,279
	Less - current maturities	**651,084**	661,998	**498,270**	320,200
		2,208,096	3,006,343	**1,497,565**	1,555,079
2.	Loans from others:				
	Shareholders in subsidiaries and in proportionately consolidated companies	**37,611**	52,386	**-**	-
	Investees	**-**	-	**48,133**	154,315
	Receipts from time-sharing units	**33,053**	33,765	**-**	-
	Others and long-term accrued expenses	**64,783**	28,487	**-**	-
		135,447	114,638	**48,133**	154,315
	Less - current maturities	**2,428**	1,144	**40,008**	98,626
		133,019	113,494	**8,125**	55,689
		2,341,115	3,119,837	**1,505,690**	1,610,768

3. Classification by linkage terms and interest rates:

The consolidated balance sheet:

	Interest rate at December 31	December 31	
	2004	2004	2003
	%	NIS thousands	
Linked to the foreign currency (mainly Dollar)	1.7-8.1	**982,275**	2,147,952
Linked to the CPI	3.7-7.7	**1,368,683**	1,581,728
Linked to the CPI	-	**-**	46,227
Unlinked	6.2-7.9	**643,669**	7,072
		2,994,627	3,782,979
Less - current maturities		**653,512**	663,142
		2,341,115	3,119,837

Note 15 - Long Term Liabilities (cont'd)

A. Loans (cont'd)

The Company balance sheet:

	Interest rate at December 31 2004	December 31 2004	2003
	%	NIS thousands	
a. From banks:			
Linked to the CPI	6.2-6.9	**1,256,006**	1,502,011
Linked to the Dollar	3.6-7.7	**102,829**	373,268
Unlinked	6.2	**637,000**	-
		1,995,835	1,875,279
Less - current maturities		**498,270**	320,200
		1,497,565	1,555,079

	Interest rate at December 31 2004	December 31 2004	2003
	%	NIS thousands	
b. From investees:			
Capital note	-	**8,125**	8,125
Linked to the CPI	-	**-**	98,626
Linked to the CPI	-	**40,008**	47,564
		48,133	154,315
Less - current maturities		**40,008**	98,626
		8,125	55,689

B. Debentures

	Consolidated December 31 2004	2003
	NIS thousands	
1. Presented at long-term liabilities		
Debentures convertible into shares of subsidiary (1)	**646,200**	**-**
2. Presented between long-term liabilities and shareholders equity		
Debentures convertible into shares of subsidiary (2)	**165,091**	340,270

(1) In a private placement to institutional investors (mainly overseas) in March 2004, M-A Industries allotted non-marketable convertible debentures in the amount of 150 million dollars par value (including 5 million dollars which was issued to the underwriters in April 2004), in consideration for their par value. The debentures are for a 7-year period and bear annual interest at the rate of 1.75%. The debentures may be converted into ordinary shares of M-A Industries, of NIS 1 par value each, at a conversion rate of NIS 20.5 par value, according to a fixed exchange rate of NIS 4.514 per 1 U.S. dollar. The ordinary shares to be allotted as a result of the conversion of the debentures will be listed for trading on the Tel Aviv Stock Exchange.

Note 15 - Long Term Liabilities (cont'd)

B. Debentures (cont'd)

(1) (cont'd)

On March 22, 2007, the debenture holders will have the right, by serving prior written notice to M-A Industries (between 30 and 60 days prior to March 22, 2007), to demand redemption of the debentures (principal and interest balance at such date).

M-A Industries will have the right to force the conversion of the debentures, beginning March 22, 2007, as long as the average share price of M-A Industries in the period of 20 business days preceding the notice of forced conversion will be more than 30% higher than the conversion price of the debentures.

M-A Industries committed to the debenture purchasers that it would refrain from creating additional liens on its property, the purpose of which is the guarantee of marketable securities or other securities which the M-A Industries intends to register for trading.

The issue costs for these debentures amounted to NIS 11 million.

(2) a. In 2001, M-A Industries issued convertible bonds and options for net consideration of NIS 276 million, of which NIS 257 million was allocated to the fair value of the convertible bonds.

M-A Industries issued NIS 270,000 thousand par value of debentures (Series A) listed on the Tel Aviv Stock Exchange, bearing interest at 2.5% p.a. and linked (principal and interest) to the representative exchange rate of the Dollar. The debentures are repayable in one payment in November 2007 if not converted before then into shares. The debentures are convertible into ordinary shares of NIS 1 par value each of M-A Industries at the rate of NIS 10.03 (following distribution of a dividend) par value of debentures per one ordinary share.

b. In January 2002 M-A Industries issued NIS 133,980 thousand par value of debentures (Series A) in a private placement in a total consideration of approximately NIS 129 million. The terms of the debentures are the same as the terms of the debentures (Series A) issued by M-A Industries as above.

c. In June 2002 a consolidated company of M-A Industries purchased in the stock exchange approximately NIS 16,684 thousand par value of debentures (Series A) in consideration of approximately NIS 14 million.
During June 2003, all of the above debentures were sold for NIS 18.8 million.

Note 15 - Long Term Liabilities (cont'd)

B. Debentures (cont'd)

(2) (cont'd)

d. In 2003, NIS 57,661 thousand par value of debentures (Series A) were converted into 5,566 thousand ordinary shares, NIS 1 par value, most at an exercise price of NIS 10.36 par value of debenture per ordinary, NIS 1 par value, share. M-A Industries total share capital issued as a result of the conversion is 1,270 thousand dollars, at a premium of 11,331 thousand dollars. In 2004, 179,608 thousand par value of debentures (Series A) was converted into 17,582 thousand ordinary shares, NIS 1 par value, at a conversion rate of between NIS 10.03 and NIS 10.36 in par value of the debentures for 1 ordinary share, NIS 1 par value. The total share capital issued as a result of the conversion is 3,974 thousand dollars, with a premium of 35,581 thousand dollars.

Subsequent to the balance sheet date and proximate to the approval date of the financial statements, NIS 12,839 thousand par value of debentures (Series A) was converted into 1,280 thousand ordinary shares, NIS 1 par value.

Subsequent to the balance sheet date and proximate to the approval date of the financial statements, NIS 12,839 thousand par value of debentures (series A) was converted into 1,280 thousand ordinary shares, NIS 1 par value.

The debentures are secured by a symbolic fixed senior lien on a deposit of NIS 1 in favor of the trustee for the debenture-holders.

Beginning from 2003, conversion of the debentures became probable. Accordingly, the balance of the debentures is stated in a separate item between long-term liabilities and shareholders' equity.

Note 15 - Long Term Liabilities (cont'd)

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

1. Consolidated

	Loans from banks		Loans from others		Debentures		Total	
	December 31		December 31		December 31		December 31	
	2004	2003	2004	2003	2004	2003	2004	2003
	NIS thousands							
Second year	**1,284,673**	626,983	**20,120**	7,929	**-**	-	**1,304,793**	634,912
Third year	**598,769**	1,649,252	**17,704**	13,622	**165,091**	-	**781,564**	1,662,874
Fourth year	**182,326**	308,944	**12,941**	5,150	**-**	340,270	**195,267**	654,364
Fifth year	**52,786**	224,854	**9,076**	4,832	**-**	-	**61,862**	229,686
Sixth year	**18,710**	43,029	**1,030**	1,000	**-**	-	**19,740**	44,029
Subsequent years	**70,832**	153,281	**72,148**	80,961	**646,200**	-	**789,180**	234,242
	2,208,096	3,006,343	**133,019**	113,494	**811,291**	340,270	**3,152,406**	3,460,107

2. The Company

	Loans from banks		Loans and capital note from investees		Total	
	December 31		December 31		December 31	
	2004	2003	2004	2003	2004	2003
	NIS thousands					
Second year	**1,027,889**	314,174	**-**	47,564	**1,027,889**	361,738
Third year	**461,000**	1,232,086	**-**	-	**461,000**	1,232,086
Fourth year	**-**	-	**-**	-	**-**	-
Fifth year	**8,676**	-	**-**	-	**8,676**	-
Sixth year	**-**	-	**-**	-	**-**	-
Subsequent years	**-**	8,819	**8,125**	8,125	**8,125**	16,944
	1,497,565	1,555,079	**8,125**	55,689	**1,505,690**	1,610,768

D. See Note 22 for details of security pledged to secure loans.

Note 16 - 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 up 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 preferential rate of 25% during the remaining benefits period.

For fixed assets serving the approved enterprise, investees are entitled to an accelerated amortization deduction over five years.

In the event that an investee distributes a dividend to shareholders out of income attributable to revenues from an approved enterprise which received a tax exemption, the company that distributes the dividend would be liable to tax at 25% of the earnings distributed.

Deferred taxes in respect of income from approved enterprises were not provided, since it is the Subsidiaries policy not to initiate a distribution of dividend that involves 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 Income Tax (Inflationary Adjustments) Law, 1985 (hereinafter - "the Adjustments Law") which has been in effect since the 1985 tax year, instituted the measurement of results for tax purposes on a real basis. The various adjustments required under the Adjustments Law are meant to bring about taxation of income on a real basis. However, the adjustment of nominal income under the tax laws is not always identical to the inflationary adjustment according to the Opinions of the ICPAI. Consequently, differences are created between reported incomes according to the financial statements and between the adjusted income for tax purposes.

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 in fact claimed, accelerated rates of depreciation. Likewise, certain subsidiaries are entitled to file consolidated tax returns with the tax authorities.

D. Tax rates applicable to income from other sources:

Income not eligible to "approved enterprise" benefits, mentioned in Note 16 A. above, is liable to tax at the regular rate of 35% (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 tax loss as at December 31, 2004 carryforwards to next years amounted to approximately NIS 3,030 million as at balance sheet date, out of which NIS 1,432 million relates to Koor.
   Carryforward tax losses are linked to the CPI, according to the Adjustments Law.

2. The Company has received final assessments until 2002 tax year.

3. See Note 18A(7)(C) regarding fiscal claims against a subsidiary of M-A Industries.

F. Amendment to the Income Tax Ordinance

On June 29, 2004, the Knesset passed the "Law for the Amendment of the Income Tax Ordinance (Amendment No. 140 and Temporary Order) - 2004" (hereinafter - the Amendment). The amendment provides for a gradual reduction in the company tax rate from 36% to 30% in the following manner: in 2004 the tax rate will be 35%, in 2005 the tax rate will be 34%, in 2006 the tax rate will be 32% and from 2007 onward the tax rate will be 30%.

Current taxes and deferred tax balances as at December 31, 2004 were calculated based on the new tax rates prescribed in the Amendment. The effect of the change in the consolidated financial statements as at the beginning of 2004 is a decrease in income tax expenses of NIS 5,083 thousand.

Note 16 - Taxes on Income (cont'd)

G. Deferred taxes:

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

	December 31	
	2004	**2003**
	NIS thousands	
Within current assets in respect of:		
Provision for vacation pay and severance benefits	**16,098**	28,185
Operating loss and capital loss carried forwards [2]	**89,513**	92,327
Inventory, net of customer advances	**67,868**	3,757
Timing differences in respect of recognition of income and expenses, net	**(2,169)**	31,761
Total in current assets, net	**171,310**	156,030
Within long-term assets in respect of:		
Depreciation	**(21,110)**	(33,256)
Operating loss and capital loss carried forwards	**691,275**	*917,920
Liability in respect of employee severance benefits	**9,523**	28,680
Other	**(367)**	3,709
	679,321	917,053
Balance not expected to be realized [1]	**(666,588)**	*(856,516)
Total in other long-term assets	**12,733**	60,537
Within short-term liabilities in respect of:		
Provision for vacation pay and severance benefits	**-**	71
Timing differences in respect of recognition of income and expenses	**(183)**	(5,054)
Total in other payables	**(183)**	(4,983)
Within long-term liabilities in respect of:		
Depreciation	**(374,761)**	(364,906)
Operating loss and capital loss carried forwards	**81,115**	*125,892
Inventories less customer advances	**9,934**	-
Liability in respect of employee severance benefits	**45,049**	41,842
Other	**(1,805)**	(2,615)
	(240,468)	(199,787)

[1] The Company and certain subsidiaries have deferred tax assets, that are not expected to be realized, because of accumulated tax loss carryforwards and other timing differences. Companies Management's believes that it is not likely that these balances will be realized and, accordingly, no deferred taxes were created in respect thereof.

[2] The Company's balance - see Notes: 3G(2), 3C(7).

* Reclassified

Note 16 - Taxes on Income (cont'd)

G. Deferred taxes (cont'd):

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, 2003	(400,721)	(6,905)	140,842	178,883	39,849	(48,052)
Translation differences in subsidiaries	21,304	1,386	(7,627)	(9,026)	8,606	14,643
Amounts charged to statement of operations	(18,745)	9,276	(34,437)	109,766	(20,654)	45,206
Balance as at December 31, 2003	(398,162)	3,757	98,778	279,623	27,801	11,797
Translation differences in subsidiaries	**8,057**	**(59)**	**(1,124)**	**(4,219)**	**(211)**	**2,444**
Adjustments to changes in tax rate	**19,202**	**(93)**	**(918)**	**(9,704)**	**(3,404)**	**5,083**
Amounts charged to statement of operations	**(7,229)**	**74,197**	**(26,066)**	**(66,922)**	**(28,710)**	**(54,730)**
Other differences, net*	**(17,739)**	**-**	**-**	**(3,463)**	**-**	**(21,202)**
Balance as at December 31, 2004	**(395,871)**	**77,802**	**70,670**	**195,315**	**(4,524)**	**(56,608)**

* Mainly subsidiaries that were sold/acquired, net.

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

Note 16 - Taxes on Income (cont'd)

H. Taxes on income included in consolidated statements of operations:

1. Composition:

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
Current taxes	**242,082**	111,910	84,836
Deferred taxes	**49,647**	(45,206)	64,479
In respect of previous years, net	**(4,629)**	18,668	(8,136)
	287,100	85,372	141,179

2. Below is the adjustment between the theoretical tax amount which would have been applicable if all the income of Koor Group and the consolidated companies were taxable at 35%, and the tax amount charged in the statement of income.

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
Earnings (losses) before taxes on income, as reported in the statement of operations	**892,665**	448,364	(313,650)
Statutory tax rate	**35%**	36%	36%
Theoretical tax expenses (income) in respect of these earnings (losses)	**312,433**	161,411	(112,914)
Increase (decrease) in taxes resulting from the following factors - the tax effect:			
Tax benefits under various encouragement laws	**(49,676)**	(32,790)	(58,461)
Non-deductible expenses for tax purposes	**19,611**	22,650	144,711
Losses for which deferred taxes were not recorded	**113,347**	40,470	194,666
Provisions for anticipated losses from the sale of assets, net	**-**	25,748	43,699
Tax loss carried forwards from prior years for which deferred taxes were not created and which were utilized during the current year	**(20,037)**	-	(60,132)
Deferred taxes in respect of prior years and which were written-off at the reporting year	**75,601**	-	-
Tax losses from prior years, for which deferred taxes were recorded this year	**(77,483)**	(58,903)	-
Differences between the measurement basis according to the financial statement to measurement basis for tax purposes	**9,520**	(25,660)	24,032
Taxes in respect of prior years	**(4,629)**	18,668	(8,136)
Effect of foreign subsidiaries *	**(93,213)**	(63,328)	(28,862)
Others **	**1,626**	(2,894)	2,576
Total taxes on income	**287,100**	85,372	141,179

* 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.

Note 17 - 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.
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 Company's liability for employee severance benefits.
Employees dismissed before reaching retirement age are entitled to severance pay, computed on the basis of their latest salary. Where amounts accumulated in the pension funds are insufficient to cover such severance pay, the company and its subsidiaries will make up the amount of the shortfall at the time of payment.

In certain subsidiaries, past experience has shown that the vast majority of employees continue to work until they reach retirement age, and these companies were not required, in the past, to make up significant shortfalls for employees who chose early retirement. Accordingly, the managements of these companies believe that there is a low probability that such shortfalls will be paid. Therefore, the financial statements of these companies do not include a provision. The financial statements of the other Group companies include a suitable provision, based on management's estimate of the salary components used to compute the pension for full coverage of the said obligation.
Regarding companies in which enhanced severance has been planned or agreed upon for the employees, appropriate provisions have been made for the supplementary amounts.

In January 2004, the Retirement Age Law, 2004 ("the Law") was enacted. The Law raises the retirement age for men and women. In the estimation of the management of the Company and its investees, the Law will not have a material impact on the Group's recorded liability for early pension in respect of its employees, beyond the provisions that were included in this respect.

B. Funds for severance pay and retirement grants:

The funds provisions in severance pay funds include accrued linkage differences and interest, and they are deposited in severance pay funds in banks and insurance companies. Withdrawals from the funded provision monies are contingent 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 0.3%-0.4% per month (3.6% - 5% per annum).

D. Compensation for unutilized sick leave:

A provision for unutilized sick leave, according to agreements, is included in the accounts in respect of those employees who have reached the age of 55. Due to the uncertainty as to whether employees who have not reached that age will be entitled to such compensation (as a result of utilization of sick leave or early retirement), no provision has been made. The provision is computed on the basis of the latest salary for 8 working days in respect of each year during which the sick leave was not utilized.

Note 17 - Liabilities for Employee Severance Benefits, Net (cont'd)

E. 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	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Severance pay and retirement grants	**265,013**	259,455	**6,903**	3,227
Amount accrued for early retirement	**184,335**	186,059	**575**	548
Amount accrued in respect of unutilized sick leave	**14,177**	11,853	**362**	314
	463,525	457,367	**7,840**	4,089
Less – amount funded	**266,357**	265,365	**2,865**	2,605
	197,168	192,002	**4,975**	1,484

Note 18 - Contingent Liabilities and Commitments

A. Contingent liabilities

1. Anti-Trust Commissioner:

a) During 1997, an investigation was conducted on behalf of the Anti-Trust Commissioner ("the Commissioner") in connection with alleged violations of the Anti-Trust Law, 1988 ("the Anti-Trust Law"), relating to alleged price fixing and absence of competition between Tadiran Ltd. (a subsidiary of Koor - "Tadiran") and Tadiran Telecommunications Ltd. (a former subsidiary of Koor that merged with ECI - "Telecommunications") and between Telrad Networks Ltd. (a subsidiary of Koor - "Telrad").

On September 7, 2004 it was agreed with the Commissioner that he would issue an order according to Section 50B of the Anti-Trust Law by which Tadiran and Telrad would pay to the State Treasury the total amount of NIS 8 million, without this being considered an admission of guilt by the above companies and/or any of their officers to committing any crime. It was further agreed that indictments would not be filed, in the field of public switches and in the field of private switches, and the Commissioner would not take any further action against the companies and/or their officers. The order was approved by the Court. In accordance with the agreement with the Commissioner, a provision of NIS 8 million was included in the consolidated financial statements as at December 31, 2004.

Note 18 - Contingent Liabilities and Commitments

A. Contingent liabilities (cont'd)

1. Anti-Trust Commissioner (cont'd)

b) On February 2, 2005, Koor's offices received notice from the Anti-Trust Authority that it was considering the possibility of prosecuting Koor, together with 7 other companies that are not members of the Koor Group (including 2 companies that had been owned by Koor on the relevant dates, and were later sold to third parties) and 9 executives (including 2 who had been salaried employees of Koor on the relevant dates), for violations of the anti-Trust Law. The notice came in the wake of an investigation opened by the Anti-Trust Authority in the other companies during 2001, with respect to price fixing and collusion, and the lack of competition in the frozen and canned vegetable industry. The Anti-Trust Authority claims that two companies that belonged to the Koor Group in the past had colluded with two other companies in the years 1992-1998.

According to the Anti-Trust Law, penalties can be imposed on those who violate the Law, but the Company believes, based on its legal counsel, that the said penalties, if imposed, will not have a material effect on the financial statements. Moreover, there may be civil implications if it is possible to prove that damages were caused by the aforementioned violation. The Company is unable to assess the implications in the civil law track, if any, especially due to the fact that in the opinion of the Company and its legal counsel, for the vast majority of the period involved, the statute of limitations has expired.

2. On September 21, 2004 a suit was filed against the Company, Bezeq - the Israel Telecommunications Company Ltd., Tadiran Ltd., Telecommunications, Tadiran Public Switching Ltd., (a former subsidiary in Telecommunications), and Telrad 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 Law, and according to Civil Procedure regulations. In the Statement of Claim, the plaintiff alleges that during the previous decade, the defendants had engaged in activities prohibited by the Anti-Trust Law that 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 decisive objection to the request of the plaintiff to certify the claim as a class action.

In the estimation of the Company, based on its legal counsel, the chances for the suit and for the action to be recognized as a class action are remote.

As to the indemnification Tadiran gave to ECI, see Note 18A(6)(a) below.

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

A. Contingent liabilities (cont'd)

3. Elisra

a) As part of the agreement for the sale of part of the Company's holdings in Elisra to Elta, as described in Note 3E(2), Koor undertook to indemnify Elta for damages, as defined in the agreement, which will be sustained as a result of breach of representations made to Elta in the agreement. The main points of the indemnification undertaking liabilities that have not expired are as follows:

1. Any amount of damages that will be sustained as a result of breach of the representation concerning the insurance indemnity rights to which the Elisra Group is entitled, relating to the fire that occurred at the Group's plants, see Note 3E(1). Elta's right to demand payment of the indemnity in this matter carries no time limit.

2. Any amount of damages that will be sustained as a result of tax payments in respect of the tax year 2001, for which Elisra will be liable, and that are at least 4 million dollars higher than the total provisions for taxes included in Elisra's financial statements for 2001; provided that the demand for payment of indemnity is submitted by Elta not later than 30 days after the date on which the self-assessment in respect of that tax year becomes final.

b) Financial covenants

1. Elisra's undertakings with banks are secured by negative pledges. Under the terms of the negative pledges, Elisra undertook to maintain financial covenants (which will be measured on the basis of the consolidated financial statements), including a minimum ratio of shareholders' equity to total assets (as described in the agreement), minimum current ratio, amount of shareholders' equity and minimum pre-tax earnings. In addition, certain limitations were imposed on the Elisra with respect to furnishing guarantees to third parties, creating new liens and the sale or transfer of assets in material amounts.

2. During 2004, Elisra took out long-term loans totalling 20 million dollars. Under the terms of these loans, Elisra's undertakings toward the credit providers include meeting financial covenants as provided in Note 18(b)(1) above, as well as a debt coverage ratio, as defined in the agreement, which will be measured on the basis of Elisra's unconsolidated financial statements. Likewise, limitations were also imposed on Elisra relating to the distribution of a dividend and other payments to its shareholders, as stipulated in the agreement.

   In the estimation of Elisra's management, during the report period and as at the balance sheet date, Elisra was in compliance with the above financial covenants.

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

A. Contingent liabilities (cont'd)

4. In accordance with the agreements with the banks, Koor undertook to maintain certain financial covenants, including minimum shareholders' equity and debt capital – of Koor and certain investees, ratio of shareholders' equity to debt capital, a ban on creating pledges or furnishing guarantees without the advance consent of the banks, and limitations prescribed in the agreement. Koor also undertook to repay part of the existing debt, by using the proceeds to be received from the realization of certain assets, if they are realized.
Additionally, Koor undertook not to sell the shares of a certain investee, except for cash, and at a percentage not to exceed that stipulated in the agreement with the banks and other limitations as mentioned in the above agreements.

   As at the balance sheet date, Koor is in compliance with the above covenants.

5. Telrad

   a. In October 1994, a claim in an unspecified amount was filed by the Engineers Union against Telrad. The claim pertains to recognition of the applicability to Telrad engineers of the salary tables included in the general collective agreements signed in the years 1994 and 1995, between the Engineers Union and employers in the public service sector, beginning January 1, 1993,
On January 31, 1996, Tel Aviv District Labor Court issued a ruling, which dismissed outright the claims of the Engineers Union.
The Engineers Union appealed the ruling to the National Labor Court, which ruled that the agreement is a collective agreement governing the relations between Telrad, the Union and the Telrad employees. Telrad filed an appeal with the Supreme Court.

      On January 29, 2002, a ruling was issued dismissing Telrad's appeal. Consequently, the next stage is a hearing of evidence by the Labor Court concerning the applicability of public service sector to salaries in Telrad.

      In April 1996 a parallel claim was filed by the Lod Workers Council and the Monthly Workers Committee, to have the salary scales of the public services sector applied to the employees of Telrad.

   b. In 1999, a claim was filed against Telrad by company employees who are members of Telrad's workers' committee. They are suing to be given accounts so that the plaintiffs can examine the calculation of the distribution of earnings to employees. They are also suing for a declaratory judgment which will rule that Telrad is obliged to draw up new accounts for the distribution of earnings. In addition, a motion was filed to recognize the plaintiffs as representatives of all of Telrad's workers and employees. The court dismissed the motion for a class action. A defense brief has been filed by Telrad.

   Telrad recorded an appropriate provision in respect of the above claims.

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

A. Contingent liabilities (cont'd)

5. Telrad (cont'd)

c. As part of the agreement for the sale of shares of Telrad Networks (see Note 3D(1)), Koor and Telrad Holdings (a wholly-owned subsidiary of Koor) undertook indemnifications in respect of the following events:

1. Damage or loss sustained by the buyer from a decline in the value of the acquired shares as a result of a decrease in the equity value of Telrad Networks due to erroneous representations made on the transaction date. This indemnification will be in force until 30 days after publication of the financial statements of Telrad Networks as at December 31, 2006, except for representations on the capital structure of Telrad Networks and tax items in the financial statements, for which there is no time limit on indemnification.

2. Telrad Networks not meeting certain targets as defined in the agreements. The indemnifications listed in this item are for between two and five years.

3. Damage or loss sustained by the buyer in respect of erroneous representations with respect to the sellers' ownership of the shares being sold and their ability to execute the sale. This indemnification will have no time limit.

The total amount of the indemnification is limited to the amount of the consideration received from the sale of the shares of Telrad Networks (except in respect of claims, the cause of action of which is fraud, in which the amount is unlimited). As at the publication date of the financial statements, the amount of the proceeds received is about 10 million dollars.

In the event the indemnification is invoked according to one of the causes of action described previously, the amount of the indemnification will be deducted from the loans that the seller made available to Telrad Networks as part of the sale agreement.

Additionally, indemnification was given in respect of expenses that Telrad Networks will incur at an amount exceeding the sum stipulated in the agreement in respect of the recognition of a class action filed in September 2004 relating to anti-trust activities (see Note 18A(2)).

6. Tadiran and its investees

a. In the 1999 merger agreement between ECI and Tadiran Telecommunications Ltd. ("TTL"), Tadiran Ltd. undertook to indemnify ECI for any damages (in excess of the amount defined in the agreement) it sustains as a result of matters under investigation by the Anti-Trust Commissioner.

This indemnification will remain valid for a period of seven years from the date of the merger and may be extended for an additional period, as long as these matters are under investigation by the Commissioner.

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

A. Contingent liabilities (cont'd)

6. Tadiran and its investees (cont'd)

b. Employees of a Tadiran plant that closed during 1990 filed actions against Tadiran, alleging that they sustained injuries or certain work-related illnesses resulting from alleged exposure to certain substances.

Tadiran has insurance policies which, relying on legal opinions, substantially cover possible damages resulting from these claims. Therefore, no provisions have been made in respect of these claims. Tadiran recorded provisions in respect of possible damages which had been covered by an insurance company currently in liquidation.

c. In October 1999, Bezeq - The Israel Telecommunication Corp. Ltd. ("Bezeq") lodged a claim against Tadiran Ltd. whose main cause is various losses sustained by Bezeq due to delays in the performance of projects ordered in development and application contracts originally signed between Bezeq and TTL, in the amount of approximately 8.6 million dollars ("main claim").

Alternatively, Bezeq is suing for the balance of arrearage penalties to which it alleges it is entitled pursuant to these contracts, and which were not paid in full, in the amount of approximately 1.7 million dollars ("alternative claim").

In an arbitration judgment issued on February 17, 2000, all of Bezeq's arguments regarding Tadiran's liability for the main claim were dismissed. The arbitration judgment rules that pursuant to the contractual commitments between the parties, Bezeq is entitled to compensation within the framework of arrearage penalties only. The negotiations between the parties for a settlement were unsuccessful, and the matter was returned to the arbitrator for his decision. In February 2003, a supplementary arbitration agreement was signed. The parties submitted their written arguments and the arbitrator issued his ruling on February 26, 2004. In his ruling, the arbitrator affirmed Tadiran's position and ruled in accordance with the parameters for calculating the damages that Tadiran is meant to pay to Bezeq. The parties conducted negotiations regarding implementation of the aforementioned parameters, and they agreed that the final amount would be NIS 4.6 million, which was paid subsequent to balance sheet date. The financial statements of the Company include an adequate provision.

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

A. Contingent liabilities (cont'd)

7. M-A Industries and its investees

a. Quality of the environment

The activities of M-A Industries are exposed to the risks of harming the environment, since it manufactures, stores and sells chemicals. M-A Industries invests significant amounts in order to comply with the provisions of environmental laws and regulations, and in the opinion of the management it does comply therewith. According to M-A Industries' insurance experts, the insurance policies provide coverage in the event of a sudden unexpected occurrence of environmental pollution in Israel and worldwide, subject to the relevant terms of the policy. As at balance sheet date, M-A Industries does not have insurance coverage for continuous environmental pollution.
Such insurance is difficult to obtain, and even where it can be obtained, M-A Industries believes that the terms of the insurance, including the sum insured, do not at present justify taking out such insurance.

Pursuant to an agreement with the Ministry of environmental Protection, subsidiaries decided to construct facilities for the biological treatment of waste. Construction of the facility will take about 3 years. In the estimation of M-A Industries management, the aggregate construction cost will be between 30 million dollars and 40 million dollars.

One of the plants of M-A Industries subsidiary is located in Ramat Hovav, along with other chemical plants, since the Government decided that the area is suitable for the construction of chemical plants under the assumption that the geological layers in that particular area are completely impermeable to seepage or pollution. The Ministry of the Environment ("The Ministry") conducted tests, which determined that there are indications of subterranean pollution in Ramat Hovav. The investigators recommended that steps be taken to prevent the continuation of leakages from active and inactive plants, which could constitute a source of pollution of the water table in the area. The subsidiary may be required to clean up the relevant areas or subterranean layers if and when it is found that the subsidiary is responsible for the said contamination. Over the past several years various tests have been performed by different agencies to test the ground contamination in the Ramat Hovav area as well as the area surrounding the subsidiary's premises in Be'er Sheva. In the opinion of the subsidiary Management, no material consequences on the financial statements are expected due to application of the recommendations deriving from the said examinations.

In May 2004, a subsidiary of M-A Industries owning additional plants at the Ramat Hovav site, received notice of a change in the terms of the license, whereby the plants must change the method used to treat sewage from the existing treatment, do so independently and through the implementation of vaporization processes. These terms include demands that, within a short period of time, the plants conduct research and development for the purpose of customizing the process to the composition of each plant's sewage, and later, to build a suitable facility. Additionally, formulation processes are to be implemented, whereby the plants must present the Ministry with a research and development program for the purpose of implementing the process with respect to the sewage. At the same time, the Ministry of the Environment set the date by which the plants must treat the sewage in the requisite format and to stop the flow of sewage into the Council's vaporization pools and treatment facilities.

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

A. Contingent liabilities (cont'd)

7. M-A Industries and its investees

a. Quality of the environment (cont'd)

On October 10, 2004, a subsidiary of M-A Industries, together with the Israel Manufacturers Association and other companies, filed an administrative appeal with the Beer Sheba District Court against the Ministry of the Environment. The subject of the appeal is the additional conditions for obtaining a business license imposed on the appealing plants in May 2004 which are engaged in the treatment and discharge of sewage created by their activities. In the appeal, the District Court was asked to issue an order declaring that the additional terms are nullified.

On December 29, 2004 a preliminary hearing on the appeal was held. The hearing on the appeal was scheduled for March 2005.

In the estimation of M-A Industries management, based on its legal counsel, in view of the preliminary stage of the process, it is not possible at this time to estimate the prospects of the administrative appeal. In the estimation of M-A Industries, if the appeal is dismissed, it will have a material effect on the activities of the plant in Ramat Hovav and/or will require investments of amounts that M-A Industries is unable to estimate at this time.

On November 28, 2004, the Government reached a decision approving a plan related to reducing air and water pollution deriving from the “Ramat Hovav” industrial area.

The key points of the plan are:

(a) Treatment of the plants’ sewage

1. By June 30, 2006, the flow of untreated sewage to the joint biological treatment facility will be halted and each plant will treat the sewage to the quality level prescribed by the Ministry of the Environment (as derive from the additional conditions for a business license from May 2004).
2. By December 31, 2007, the flow of waste water to the vaporization pools will be halted and each plant will treat the waste water, to the level of quality and concentration of salts prescribed by the Ministry of the Environment (as derived from the additional conditions for a business license from May 2004).

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

A. Contingent liabilities (cont'd)

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

a. Quality of the environment (cont'd)

(b) Rehabilitation of existing vaporization pools

1. On January 1, 2005, the Ramat Hovav Industrial Council will begin taking action to dry and rehabilitate the area of the vaporization pools spanning 15,000 square meters, in an attempt to complete the drying and rehabilitation activities by not later than the end of 2012.

2. The Ramat Hovav Industrial Council will submit a detailed plan and timetable for drying and rehabilitating the vaporization pools site to the Ministry of the Environment for approval by December 31, 2004.

(c) Treatment of air pollution

The Ministry of the Environment will formulate and operate a plan to prevent exceptional emission of hazardous materials into the air from the Ramat Hovav industrial area.

As to the possible implications of the Government's decision on the activities of M-A Industries, see above.

A criminal complaint was filed against M-A Industries and one of its executives by the Man, Nature and Law Foundation. The complaint accuses M-A Industries that in several instances during 1999-2002, there were measurements at its Ramat Hovav plant of chimney emissions of materials at prohibited concentrations, which created strong air pollution.
M-A Industries does not admit to the charges in the complaint.
In the opinion of M-A Industries and its legal counsel, because of the early stage of the proceedings, it is not possible to estimate the outcome of the complaint and/or the resultant exposure. Therefore, the financial statements do not include a provision in respect thereof.

b. In 1995, a claim was filed against a subsidiary of M-A Industries and several other defendants, totaling approximately NIS 137.5 million, by a group that had acquired the rights of two banks which declared bankruptcy. The subsidiary is being sued as the guarantor of debts of agricultural cooperatives that were its former shareholders.
The position of the subsidiary is that it was removed from the guarantee agreement under the terms of a subsequent agreement between the bank, the previous shareholders and a subsidiary of the former shareholders. The subsidiary's financial statements include a provision of NIS 8.6 million, based on the possibility of a compromise agreement with the plaintiffs. In the estimation of the subsidiary, based on the opinion of its legal counsel, the provision recorded is sufficient to cover any possible loss from this claim.

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

A. Contingent liabilities (cont'd)

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

   c. Administrative proceedings, civil actions and other monetary claims of approximately NIS 209 million have been filed against a subsidiary of M-A Industries. Based on the opinion of its legal counsel, the subsidiary's management estimates that the chances of the subsidiary's success in the proceedings and its defense against the above claims and demands are high. The subsidiary believes that the provisions recorded in its financial statements are adequate to cover any possible damage which may result, if any, from these claims.

   d. On the matter of undertaking in securitization of transactions, and on the matter of compliance with financial covenants, see Note 3C(2).

8. The other shareholders ("the plaintiffs") in Herods, a proportionately consolidated company of Sheraton Moriah (Israel) Ltd., a subsidiary of Koor, filed a "motion for approval of a claim as a derivative action" with the Tel Aviv District Court against Sheraton and a subsidiary. The derivative action for which they are seeking approval is for the cancellation of the management agreement between Herods and a subsidiary, as part of the arbitration process to which the claim has been referred. The claim itself deals with the plaintiffs' arguments regarding breaches in the management and image promotion agreements.
   As a result of negotiations conducted between the parties, a compromise agreement was signed on February 26, 2005, pursuant to which the motion for approval of the derivative claim will be dismissed, and the proceedings of the derivative claim will be stricken. The compromise agreement is subject to the approval of the board of directors of the parties. After such approval is given, a final binding agreement will be signed and the parties will appeal to stay the proceedings.

9. In addition, a number of claims have been filed against 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.

10. On conditions relating to an investment grant – see Note 10A(2).

11. In Israel, the Stamp Duty on Documents Law, 1961 ("the Law") is applicable to various documents at different rates, depending on the kind of document and the amount stipulated therein, or not stipulated therein. In June 2003, the wording of Section 15.A of the Law was amended, prescribing who is obligated for the stamping of documents.
    Since June 2003, the Israeli tax authorities have intensified the enforcement of the Law. The amendment to the Law and the enforcement activities of the tax authorities were brought before the Supreme Court for a hearing, on which a ruling has not yet been issued. Moreover, according to the legislative trends, the Stamp duty tax is expected to be gradually eliminated, until it is fully cancelled in 2008.
    Certain investee companies received a request from Tax Authorities to produce documents.
    In the estimation of the managements of the Company and the investees, based on the opinions of their legal counsel, the Companies are not expected to have material exposure in respect of any demand related to the Stamps Duty Law.

12. On the indemnity granted to Claridge as advisor - see Note 25C(2).

13. In connection with the indemnification of the appraiser who conducted a valuation for ECI, see Note 3A(1).

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

A. Contingent liabilities (cont'd)

14. The liabilities of directors and officers in the Company and investees are insured by leading insurance companies in Directors and Officers Insurance (D&O), subject to the terms of the insurance policy.
Additionally, in accordance with a resolution of the general meeting of the Company's shareholders, the Company resolved to indemnify the directors and officers for various events that are not covered by the insurance, at a monetary amount exceeding the insured amounts, all as provided in the said resolution.

15. In connection with the indemnification of the appraiser who conducted a valuation for Tadiran Communications Ltd, see note 3H(1).

B. Commitments

1. Several companies in the Group have research and development contracts with the Government of Israel. Under these contracts, the companies are required to pay royalties to the Government of Israel if they generate income from such research (at rates of 2% - 5% of sales proceeds from products resulting from the research and development), in amounts not exceeding 100% - 150% of the amounts of the grants, linked to the dollar, received by the companies as participation in the research and development projects.

   Royalty expenses paid to the Government of Israel in respect of these research and development contracts, are as follows:
   In the year ended December 31, 2004 – NIS 29,758 thousand.
   In the year ended December 31, 2003 – NIS 22,902 thousand.
   In the year ended December 31, 2002 – NIS 24,662 thousand.

2. Certain subsidiaries undertook to pay royalties at the rate of 3% per year in respect of the incremental export sales, up to the amount financed by the Fund for the Encouragement of Marketing Abroad. Such amounts are linked to the exchange rate of the dollar.

3. Commitments for the purchase of fixed assets: December 31, 2004 – NIS 22 million; December 31, 2003 – NIS 50 million.

4. 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 43 million in 2004, NIS 50 million in 2003 and NIS 60 million in 2002.
Future minimum payments under the operating leases and rental fees for the years subsequent to balance sheet date, are as follows:

	December 31 2004
	(NIS thousands)
First year	**41,960**
Second year	**34,044**
Third year	**21,514**
Fourth year	**8,748**
Fifth year and thereafter	**26,961**
	133,227

5. Koor Corporate Venture Capital's commitment for additional investments in a venture capital fund, as at the signing date of the financial statements is approximately 5 million dollars.

6. A subsidiary of M-A Industries has agreements regarding long-term supply contracts with a multinational company in the amount of 17 million dollar per year for a period of five years (2001-2006).

Note 19 - Convertible Securities of Investee Companies

Option warrants to employees:

Certain investees issued options to their employees until 2004 inclusive. Employee entitlement to such options is usually accrued over a number of years from their date of issue, subject to continued employment. The exercise term of the options varies according to the terms of the different plans.

Convertible debentures and options

See Note 15B.

At each reporting period, Koor reviews the probability that the convertible securities will be exercised. If a loss, as a result of dilution, following the convertible securities exercise, is expected, the Company records the loss.

Note 20 - Share Capital and Stock Options

A. Share capital is composed as follows:

	December 31, 2004		December 31, 2003	
	Authorized	Issued and Outstanding	Authorized	Issued and outstanding
Number of shares:				
Ordinary shares, par value of NIS 0.001 [(1) (3) (5)]	**83,932,757**	**16,033,213**	83,932,757	15,950,188
Deferred shares, par value of NIS 0.001 [(2) (4)]	**15,792,243**	**15,156,533**	15,792,243	15,156,533
Amount in nominal NIS:				
Ordinary shares, par value of NIS 0.001	**83,933**	**16,033**	83,933	15,950
Deferred shares, par value of NIS 0.001	**15,792**	**15,157**	15,792	15,157

Note 20 - Share Capital and Stock Options

A. Share capital is composed as follows:

(1) These shares are listed on the Tel Aviv Stock Exchange (TASE). On December 31, 2004, the share price on the TASE was NIS 224.90.

The ADS, (American Depository Shares) each of which represents 0.2 ordinary shares, par value of NIS 0.001 (hereinafter – Ordinary Shares), are traded on the New York Stock Exchange (NYSE). The ADS price on the NYSE on December 31, 2004 was 10.56 dollars.

(2) The holders of the deferred shares are entitled to recovery of paid up capital upon liquidation in its nominal amount, 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, subsidiaries hold 15,799 Ordinary Shares.

(4) A subsidiary of Koor - Koor Trusts (1995) Ltd. (in voluntary liquidation) had held 624,577 deferred shares of Koor, and in anticipation of its final liquidation, sold them to Koor Investments Ltd. (a subsidiary of Koor) in 2004.

(5) During 2004, options in the employee stock option plans (See Note 20C) were exercised for 83,025 ordinary shares.

B. Buy-back of Company shares

On April 7, 2000, Koor's Board of Directors resolved to approve a framework of 50 million dollars for buying back ordinary shares of Koor.
In the framework, which was fully utilized in 2000, 538,592 ordinary shares were purchased (approximately 3.4% of the ordinary share capital), at a cost of approximately NIS 219 million. This amount is deducted from the shareholders' equity of the Company.

On December 31, 2001, the Company purchased 154,637 of its ordinary shares from a subsidiary at the market price. The transaction was treated according to the Israeli Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholders), 1996.

On May 27, 2003, a foreign institutional investor (hereinafter – "the Buyer") purchased 500,000 of the aforementioned Company's shares. The Purchaser declared that the sale was effected without his requesting or receiving any information from the Company, and undertook not to trade the shares to be purchased within a specified period.
The sale was effected on that day in an off-market transaction, at the market price, for total consideration of NIS 43 million.

The Company holds a total of 193,229 of its shares. The amount deducted from shareholders' equity at the balance sheet date in respect of the shares held by the Company and subsidiaries is NIS 80,321 thousand.

Note 20 - Share Capital and Stock Options (cont'd)

C. Stock options to senior employees

1. 1997 plan:

In 1997, 188,968 stock options were allotted under this plan.

On March 22, 2000, Koor's Board of Directors resolved to amend the plan so that for an employee who resigned and who holds stock options that vested before his resignation, their exercise period would be until the end of the five years from the inception date of the plan (hereinafter – "Amendment of the exercise period for employees who resign").

On August 6, 2000, Koor's Board of Directors resolved that for Company employees who are not related parties in the Company and who did not resign before the end of 2000, the exercise period of each stock option would be extended to the end of 5 years from the vesting date (hereinafter – "Amendment of extension of the exercise period").

On November 15, 2001, Koor's Board of Directors resolved that for Company employees on the date of resolution and who are not related parties in the Company the exercise price of their stock options would be amended to NIS 101.38 per share. The Board of Directors also resolved that the technical method of exercise would be the "Bonus Component Method" (see below, in sub-section 2).

On June 5, 2003, the Company's Board of Directors resolved to extend the exercise period of the options of Koor Group employees on the date of the resolution, to December 31, 2010.

Balance of stock option not exercised	Exercise price	Exercise date
	NIS	
2,519	101.38	05/2005
3,000	101.38	12/2010
5,519		

2. 1998 plan:

On August 30, 1998, an extraordinary general meeting of the shareholders of the Company approved a private placement of 400,000 stock options, free of charge, to Company employees. The options are exercisable for up to 400,000 ordinary shares of a par value of NIS 0.001 each (hereinafter – "the Plan").

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 (above and hereafter – "the Benefit Component Method").

Note 20 - Share Capital and Stock Options (cont'd)

C. Stock options to senior employees (cont'd)

2. 1998 plan: (cont'd)

On March 22, 2000, the Board of Directors approved an amendment of extension of the exercise period for employees who resign, applicable to option holders under the Plan who are not related parties (see Note 20C(1)). The Board of Directors also resolved that for these option holders, the exercise price would be adjusted in respect of distribution of a dividend for all the options, even if the vesting date preceded the entitlement to the dividend.

On October 6, 2000, the Board of Directors approved the amendment of extension of the exercise period for Company employees who are not related parties in the Company and who did not retire before the end of 2000.

On November 15, 2001, the Board of Directors approved the amendment of the exercise price to NIS 101.38 per share for Company employees on the resolution date who are not related parties in the Company.

On June 5, 2003, the Company's Board of Directors resolved to extend the exercise period of the options for Koor Group employees on the resolution date to December 31, 2010.

Balance of stock option not exercised	Exercise price	Exercise date
	NIS	
670	101.38	07/2006
52,593	101.38	12/2010
53,263		

3. 2000 Plan:

On August 6, 2000, the Board of Directors of the Company approved the 2000 stock options plan, which was previously approved on June 14, 2000 by the Executive Committee of the Board of Directors. The main points of the plan are these:

1) A total framework was approved for the allotment of 400,000 stock options theoretically exercisable for up to 400,000 ordinary shares of the Company, i.e. about 2.5% of the ordinary issued share capital of the Company.

2) The options 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.

3) The exercise price of each stock option, pursuant to the amendment by the Board of Directors of the Company on November 15, 2001, will be NIS 101.38 per share.

4) The options are designated for Company employees who are not related parties in the Company and will not become related parties in the Company as a result of allotment of the stock options.

Note 20 - Share Capital and Stock Options (cont'd)

C. Stock options to senior employees (cont'd)

3. 2000 Plan: (cont'd)

5) The stock options will vest in accordance with a division of the options into three batches, so that at the end of the first year from the record date (June 14, 2000) or from the date on which the employee started work in the Company (whichever is the later), one third of the quantity allotted will vest, and the remaining two thirds of the quantity will vest at the end of each of the two subsequent years. The exercise period of each vested option is 5 years from the vesting date.

6) On October 5, 2000, the total quantity of 400,000 stock options was allotted to a trustee.

7) On June 5, 2003, the Company's Board of Directors resolved to extend the exercise period of the options of Koor Group employees on the date of the resolution to December 31, 2010.

Balance of stock option not exercised	Exercise price	Exercise date
	NIS	
1,734	101.38	6/2007
30,000	101.38	12/2010
31,734		

4. 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 of the Company's Board of Directors and by the Board of Directors, on May 25, 2003 and June 5, 2003, respectively. The key points of the Plan are:

1) 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.

2) 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.

3) The exercise price of every 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.

Note 20 - Share Capital and Stock Options (cont'd)

C. Stock options to senior employees (cont'd)

4. 2003 Plan: (cont'd)

4) The options are designated for Company employees who are not related parties in the Company and will not become related parties in the Company as a result of allotment of the stock options. In any event, the total number of offerees under Plan 2003 will not exceed 35 offerees, including the Company's directors and the CEO.

5) 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.

6) Options not exercised by December 31, 2010 will expire.

7) 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. And on the other hand, the Company will be unable to claim any tax deduction for the expense.

8) 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.

9) The balance of options remaining as at December 31, 2004 is 939,450 options.

Balance of stock option not exercised	Exercise price	Exercise date
	NIS	
856,450	96	12/2010
33,000	175.95	12/2010
50,000	186.20	12/2010
939,450		

Changes in the options during 2004:

	1997 Plan	1998 Plan	2000 Plan	2003 Plan	Total
Balance as at beginning of year	26,039	65,926	61,667	951,789	1,105,421
Granted	-	-	-	93,000	93,000
Exercised	(20,520)	(12,663)	(29,933)	(105,339)	*(168,455)
Balance as at end of year	5,519	53,263	31,734	939,450	1,029,966

* Because of the "Benefit Component Method", a total of 83,025 ordinary shares of the Company were issued.

Note 21 - Financial Instruments and Linkage Terms of Monetary Balances

A. General:

The Company and certain subsidiaries have entered into forward transactions and option contracts, in order to hedge assets and liabilities denominated in foreign currency and in order to reduce the overall exposure of commitments for the purchase of raw materials and the sale of goods, in currencies other than the function currency. Those subsidiaries neither hold nor issue financial instruments for trading purposes.

B. Details of the open foreign exchange transactions made to hedge the company's and subsidiaries' assets and liabilities in foreign currency as at December 31, 2004:

	Forward Transaction	Call options	Put options	Swap transactions
	NIS thousands			
Purchase of Dollars in exchange for:				
NIS	25,848	124,932	335,716	-
European currencies	53,850	1,185,992	141,302	-
Brazilian Real	15,078	43,080	43,080	24,509
Others	45,234	99,515	177,920	-
	140,010	1,453,519	698,018	24,509
Sale of Dollars in exchange for:				
NIS	17,232	142,164	196,014	-
European currencies	28,433	189,983	1,334,618	-
Brazilian Real	-	-	-	258,480
Others	-	178,351	95,638	-
	45,665	510,498	1,626,270	258,480

C. The Company entered into an interest rate swap (IRS) in the amount of 50 million dollars, in order to reduce its exposure to fluctuations in interest rates. In the transaction, variable interest was exchanged for fixed interest. Additionally, the Company executed hedges on its CPI-linked loans and acquired a CPI-dollar forward contract in the amount of NIS 170 million.

D. Fair value of financial instruments:

Condensed data of monetary assets and liabilities, whose fair value as at December 31, 2004, based on their market value, is different from those presented in the financial statements, is as follows:

	Carrying amount	Fair value
	NIS millions	
Investments in affiliates	1,275	1,754

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

D. Fair value of financial instruments: (cont'd)

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

E. Credit risk of trade receivables:

	NIS millions
Condensed data of credit risk of trade receivables as at December 31, 2004:	
Receivables insured by credit card companies	**341**
Receivables insured by foreign trade risk insurance	**22**
Receivables - Government authorities and Bezeq	**42**
Other receivables, including checks and credit card companies	**1,774**
Total, including non-current receivables	**2,179**

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.

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

F. Linkage terms of monetary balances:

(1) Consolidated

	December 31, 2004				December 31, 2003			
	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Total	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Total
	NIS thousands				NIS thousands			
Assets								
Current assets:								
Cash and cash equivalents	**512,511**	**-**	**104,799**	**617,310**	491,889	-	101,514	593,403
Short-term deposits and investments	**91,312**	**101,785**	**223,371**	**416,468**	87,534	150,495	128,780	366,809
Trade receivables	**1,968,387**	**13,546**	**191,666**	**2,173,599**	1,794,141	11,945	246,375	2,052,461
Other accounts receivable	**177,180**	**29,131**	**102,298**	**308,609**	139,050	25,770	85,608	250,428
Investments and other long-term receivables	**236,974**	**58,562**	**10,346**	**305,882**	217,970	59,565	2,823	280,358
	2,986,364	**203,024**	**632,480**	**3,821,868**	2,730,584	247,775	565,100	3,543,459
Liabilities								
Current liabilities:								
Credits from banks and others (not including current maturities of long-term liabilities)	**753,900**	**-**	**331,044**	**1,084,944**	647,098	-	267,162	914,260
Trade payables	**1,371,290**	**-**	**296,165**	**1,667,455**	1,030,693	-	312,090	1,342,783
Other accounts payable	**840,327**	**130,893**	**375,002**	**1,346,222**	642,646	171,487	407,953	1,222,086
Long-term loans and debentures (including current maturities)	**1,793,566**	**1,368,683**	**643,669**	**3,805,918**	2,488,222	1,627,955	7,072	4,123,249
	4,759,083	**1,499,576**	**1,645,880**	**7,904,539**	4,808,659	1,799,442	994,277	7,602,378

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

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

(2) Company

	December 31, 2004				December 31, 2003			
	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Total	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Total
	NIS thousands				NIS thousands			
Assets								
Cash and cash equivalents	**2,547**	**-**	**27,118**	**29,665**	4,066	-	5,139	9,205
Short-term deposits and investments	**51,909**	**80,235**	**166,497**	**298,641**	57,202	144,133	109,471	310,806
Other receivables	**1,121**	**-**	**14,869**	**15,990**	11,074	-	23,598	34,672
Short term loans to investee companies	**-**	**12,548**	**-**	**12,548**	-	13,951	-	13,951
Other investments and receivables	**107**	**32,028**	**-**	**32,135**	109	32,028	4	32,141
Investments and other long-term receivables:								
Investee companies (including current maturities of loans)	**43,364**	**50,711**	**1,255,315**	**1,349,390**	12,753	53,449	1,319,870	1,386,072
	99,048	**175,522**	**1,463,799**	**1,738,369**	85,204	243,561	1,458,082	1,786,847
Liabilities								
Current liabilities:								
Credits from banks and others (not including current maturities of long-term liabilities)	**166,427**	**-**	**15,025**	**181,452**	169,704	-	5	169,709
Trade payables	**43**	**-**	**340**	**383**	85	-	418	503
Other accounts payable	**18,864**	**17,143**	**27,436**	**63,443**	4,408	12,057	26,858	43,323
Long-term liabilities (including current maturities of loans)	**102,829**	**1,296,014**	**645,125**	**2,043,968**	373,268	1,648,201	8,125	2,029,594
	288,163	**1,313,157**	**687,926**	**2,289,246**	547,465	1,660,258	35,406	2,243,129

Note 22 - Liens and Guarantees

A. In order to secure some liabilities, certain subsidiaries have mortgaged their real estate and have placed fixed charges on plant, equipment and bank deposits, as well as floating charges on all of their assets. They also pledged a portion of their shares in investee companies.

Regarding the pledge in respect to an investment grant - see Note 10A(2).

B. The balances of secured liabilities are as follows:

	Consolidated	
	December 31	
	2004	2003
	NIS thousands	
Credit from banks	**333,113**	392,341
Loans from banks and others and debentures (including current maturities), see Note 15, and also C and D, E, below	**2,017,912**	1,288,411
	2,351,025	1,680,752

C. The Company financed the acquisition of Tadiran Communications through a NIS 637 million loan from a bank in Israel, in consideration for a lien on the acquired shares in favor of the bank.

D. The convertible debentures, which were issued by M-A Industries, are guaranteed by first level fixed symbolic lien with a deposit to the amount of NIS 1 for the Trustee of the convertible debenture holders (see Note 15B).

E. Guarantees to banks and others for loans and for assuring credit lines and other guarantees in favor of:

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	NIS thousands		NIS thousands	
Subsidiaries	**-**	-	**240,151**	314,125
Affiliates	**-**	340	**-**	340
Others	**78,473**	67,723	**150**	154
	78,473	68,063	**240,301**	314,619

1) In certain cases when advances from customers are received, a subsidiary provides its customers with bank guarantees to secure the advances. Guarantees in excess of the amount of advance payments stated as liabilities in the balance sheet, amounted to NIS 265,786 thousand, and NIS 302,782 thousand, as at the years ending December 31, 2004 and 2003, respectively.

Note 22 - Liens and Guarantees (cont'd)

E. Guarantees to banks and others for loans and for assuring credit lines and other guarantees: (cont'd)

2) In connection with the Bezeq agreement to transfer ownership of public switching, Bezeq received from Koor a guarantee in the amount of NIS 125 million.

3) A subsidiary has a guarantee for a major customer to pay any amounts up to 40 million dollars in relation to an indemnification that the subsidiary signed for the same customer, on account of breaches of contracts to Bezeq, the Israeli Communication Company. The guarantee is at least till 2015.

4) A subsidiary and its subsidiary in Brazil are, under certain conditions, a guarantor to financial institutions for credit that its customers received in relation to commercial sales of the consolidated company to those customers. The balance of guarantees, as at the balance sheet date, was approximately 98 million dollars. (December 31, 2003 approximately 85 million dollars).

5) There are also guarantees, in an unlimited amount, to ensure due performance of work and customer agreements, product warranty, advance payments received and guarantees on behalf of liabilities to customs and excise authorities.

6) As a condition for the continued availability, see Notes 3 and 18.

Note 23 - Data concerning Items in Statements of Operations

A. Revenues from sales and services - net (1) (2):

Consolidated:

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
Local:			
Industrial operations	**874,861**	757,759	899,768
Trading operations	**505,293**	262,692	644,591
Abroad:			
Industrial operations - export and international operations	**6,947,748**	5,902,716	5,157,580
Trading operations	**900,771**	767,263	397,851
	9,228,673	7,690,430	7,099,790
(1) Not including agency sales	**425,224**	386,491	315,124
(2) Revenues and expenses relating to work performed under long-term contracts:			
Revenues	**880,959**	979,950	1,359,621
Costs	**(709,899)**	(793,260)	(949,898)
	171,060	186,690	409,723

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

B. Cost of sales and services - consolidated:

	Year ended December 31		
	2004	**2003**	**2002**
		NIS thousands	
Industrial operations:			
Materials	**3,817,178**	2,757,523	2,766,122
Labor	**750,457**	775,567	906,158
Subcontracted work	**41,640**	49,725	68,009
Depreciation and amortization	**177,535**	180,228	189,720
Research and development expenses, net (*)	**212,115**	221,343	256,313
Other manufacturing expenses	**645,915**	533,736	493,684
	5,644,840	4,518,122	4,680,006
Less - expenses charged to cost of fixed assets	**6,510**	8,027	10,350
	5,638,330	4,510,095	4,669,656
(Decrease) increase in inventory of goods and work in process	**(39,305)**	43,428	13,057
	5,599,025	4,553,523	4,682,713
Increase in inventory of finished goods	**(176,611)**	(18,778)	(208,753)
	5,422,414	4,534,745	4,473,960
Trading operations:			
Merchandise	**508,189**	537,512	533,532
Labor	**55,394**	93,235	69,319
Depreciation	**26,155**	26,873	29,160
Others	**275,527**	200,579	209,809
	865,265	858,199	841,820
	6,287,679	5,392,944	5,315,780
(*) Net of grants and participations that were received and royalties that were paid, net	**14,220**	(1,952)	788

C. Selling and marketing expenses - consolidated:

	Year ended December 31		
	2004	**2003**	**2002**
		NIS thousands	
Salaries	**338,629**	258,260	251,372
Commissions	**150,556**	142,256	97,030
Advertising expenses	**40,993**	30,384	45,584
Depreciation and amortization	**113,638**	97,086	78,843
Other	**528,388**	412,471	341,948
	1,172,204	940,457	814,777

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

D. General and administrative expenses:

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2004	2003	2002	2004	2003	2002
	NIS thousands			NIS thousands		
Salaries	**229,180**	217,525	234,098	**22,399**	17,325	24,342
Bad and doubtful debts	**54,959**	36,903	33,933	**-**	**-**	**-**
Depreciation and amortization	**24,171**	24,070	30,797	**1,262**	1,342	1,665
Other	**217,694**	182,246	190,541	**22,987**	22,497	22,129
	526,004	460,744	489,369	**46,648**	41,164	48,136

E. Financing expenses (income), net:

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2004	2003	2002	2004	2003	2002
	NIS thousands			NIS thousands		
In respect of convertible debentures	**18,942**	15,319	17,825	**-**	612	1,139
In respect of debentures	**(480)**	-	651	**-**	-	-
In respect of long-term loans	**200,509**	141,078	240,713	**111,396**	94,641	170,283
In respect of short-term loans and credit	**79,521**	182,868	168,478	**10,756**	(2,458)	15,024
Amortization of capital raising expenses	**4,334**	2,106	2,250	**-**	-	-
Losses (gains) from marketable securities, net	**(24,238)**	(72,681)	44,112	**(18,568)**	(61,974)	35,691
Interest capitalized to fixed assets and work in process	**(1,544)**	(371)	(14,860)	**-**	-	-
Expenses (income) from balance with investees, net	**-**	-	-	**1,430**	(2,833)	6,478
Expenses (income) from deposits and others, net	**(5,682)**	(40,119)	(50,732)	**5,792**	7,120	(28,807)
	271,362	228,200	408,437	**110,806**	35,108	199,808

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

F. Other income (expenses), net

1. Consolidated

	Year ended December 31		
	2004	2003	2002
	NIS thousands		
Sale of investments and activities in investees (including changes in rates of holding)	**223,095**	32,916	342,343
Expenses relating to the termination, sale of activities and sale and write down of assets, net	**(73,078)**	(107,306)	(164,401)
Supplemental severance pay and pensions	**(54,010)**	(28,279)	(126,997)
Management services - affiliated companies	**2,682**	2,272	2,674
Securitization costs (see Note 3C(2))	**(27,783)**	**(16,112)	**(22,254)
Compensation for damages	**-**	5,580	37,957
Amortization of goodwill	**(136,437)**	(118,736)	(91,085)
Miscellaneous, net	**(13,228)**	**9,944	**27,587
	(78,759)	(219,721)	5,824

2. Company

	Year ended December 31		
	2004	2003	2002
	NIS thousands		
Profit (loss) from sale of investments in investee companies	**212,024**	7,039	336,621
Net changes in value of long-term assets	**-**	(12,382)	(10,036)
Rental income, net*	**8,135**	7,216	9,219
Capital gain from sale of fixed assets	**-**	(96)	29,189
Dividend	**4,701**	-	-
Miscellaneous, net	**10,099**	3,914	438
	234,959	5,691	365,431
* Depreciation included in the item	**760**	668	1,235

** Reclassified

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

G. Equity of the Koor Group in the operating results of affiliates, net

1. Consolidated

	Year ended December 31		
	2004	2003	2002
	NIS thousands		
Affiliated companies, net [(1)]	**3,406**	108,049	245,703
Amortization of goodwill *	**24,281**	5,774	6,388
	27,687	113,823	252,091
[(1)] Including loss from a discontinued operation in an affiliate	**-**	-	110,911

* In 2004 - net of in process research and development in the amount of NIS 20 million with respect to purchase of affiliated company - See Note 3H.

2. Company

	Year ended December 31		
	2004	2003	2002
	NIS thousands		
Equity of Koor in operating results for the year [(1)]	**57,192**	**51,709	(900,592)
Amortization of goodwill	**(30,992)**	**(15,439)	(23,159)
	26,200	36,270	(923,751)
Dividend received/proposed	**74,201**	23,043	28,663
[(1)] Including loss from a discontinued operation in an affiliate	**-**	-	110,911

(2)

	Year ended December 31		
	2004	**20003**	**2002**
	NIS thousands		
Subsidiaries	**122,172**	151,053	(680,871)
Proportionately consolidated companies	**(61,114)**	-	-
Affiliates	**(34,858)**	(114,783)	(242,880)
	26,200	36,270	(923,751)

* In 2004 - net of in process research and development in process in the amount of NIS 20 million with respect to purchase of affiliated company. - See Note 3H.

** Reclassified

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

I. Income (expenses) from investee companies and their participation in expenses - Company

	Year ended December 31					
	2004		2003		2002	
	Consolidated companies	Affiliated companies	Consolidated companies	Affiliated companies	Consolidated companies	Affiliated companies
	NIS thousands					
Income:						
Management services	**22,334**	-	25,006	-	35,573	-
Administrative expenses --						
Salary and other administrative expenses	**1,457**	-	1,679	-	9,002	-
Financing income (expenses), net	**(1,430)**	-	2,828	5	(6,480)	2
Rental income, net	**-**	-	-	-	654	-

Note 24 - Business Segments

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

The Company's telecommunication activities are focused in two companies – Telrad Networks Ltd., which develops and markets telecom products and provides end-user solutions, and ECI Telecom Ltd., an affiliated company, that provides solutions for access networks (Inovia) and transmission systems and optical networks (Enavis, Lightscape).

The Company's agrochemical activities are carried out through M-A Industries considered a world's foremost manufacturer 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, the M-A Industries is engaged in specialty aroma chemicals and other different kinds of chemicals.

Activities in the defense space are carried out mainly by the Elisra Electronics Industries Ltd. Group, a leader in the planning, development and manufacturing of solutions for electronic warfare and defense, wireless communication systems, command and control systems, pilot rescue systems and advanced communications systems.

Activities in venture capital investments space 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.

The Company's remaining business activities are in tourism, through Sheraton Moriah, which holds the Sheraton Hotel chain in Israel and Knafayim-Arkia (an affiliated company until the third quarter of 2004) which holds 40% of the EL-AL airline company which provides aviation and holiday services and leases aircrafts to other companies. Additional activities include international trade through several companies.

B. Segment sales include products sold and services rendered to unrelated customers, which are not part of the group.
Inter-industry 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 charged on a proportionate basis, expenses that benefit more than one segment. Expenses and revenue presented in the statements of operations after operating earnings are not taken in account in the determination of operating earnings or loss. Identifiable assets and liabilities by industry segments are those that are used by Koor in its activities in each segment.

Note 24 - Business Segments (cont'd)

C. Data regarding business segments of the Koor Group:

	Year ended December 31					
	2004		2003		2002	
	NIS thousands	%	NIS thousands	%	NIS thousands	%
Revenues from sales and services:						
Segments:						
Telecommunication*	**615,057**	**6.66**	796,059	10.35	814,108	11.47
Defense electronics	**1,165,998**	**12.63**	1,286,432	16.73	1,687,551	23.77
Agro-chemicals and other chemicals	**6,895,238**	**74.72**	5,191,913	67.51	4,140,471	58.32
Others	**552,380**	**5.99**	416,026	5.41	457,660	6.44
Total segments	**9,228,673**	**100.00**	7,690,430	100.00	7,099,790	100.00
* Including sales to major customer	**586,114**		753,863		415,442	

	Year ended December 31					
	2004		2003		2002	
	NIS thousands	%	NIS thousands	%	NIS thousands	%
Pre-tax earnings (losses):						
Operating earnings (loss) according to segments:						
Telecommunication	**(64,491)**	**(5.02)**	3,158	0.34	(178,623)	(34.43)
Defense electronics	**30,865**	**2.4**	(4,294)	(0.46)	78,853	15.20
Agro-chemicals and other chemicals	**1,312,534**	**102.1**	949,290	102.61	658,507	126.93
Venture capital investments	**(1,457)**	**(0.11)**	(1,445)	(0.16)	(7,894)	(1.52)
Others	**8,030**	**0.63**	(21,536)	(2.33)	(32,062)	(6.18)
Total segments	**1,285,481**	**100.00**	925,173	100.00	518,781	100.00
Joint general expenses	**(42,695)**		(28,888)		(38,917)	
Total operating earnings	**1,242,786**		896,285		479,864	
Financing expenses, net	**(271,362)**		(228,200)		(408,437)	
Other income (expenses), net	**(78,759)**		(219,721)		5,824	
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	**-**		-		(390,901)	
Pre-tax earnings (losses)	**892,665**		448,364		(313,650)	

Note 24 - Business Segments (cont'd)

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

The Koor Group's equity in the excess of losses over earnings of affiliates, net, is as follows:

	Year ended December 31					
	2004		2003		2002	
	NIS thousands	%	NIS thousands	%	NIS thousands	%
Telecommunications	**(15,919)**	**(57.5)**	(101,795)	(89.43)	(246,998)	(97.98)
Defense electronics	**-**	**-**	(130)	(0.11)	(172)	(0.07)
Venture capital investments	**(329)**	**(1.19)**	(329)	(0.30)	(329)	(0.13)
Others	**(11,439)**	**(41.31)**	(11,569)	(10.16)	(4,592)	(1.82)
	(27,687)	**(100.00)**	(113,823)	(100.00)	(252,091)	(100.00)

	December 31			
	2004		*2003	
	NIS thousands	%	NIS thousands	%
Identifiable assets				
Segments:				
Telecommunications	**550,914**	**4.97**	778,182	7.50
Defense electronics	**1,119,371**	**10.10**	1,104,515	10.66
Agro-chemicals and other chemicals	**8,242,246**	**74.33**	7,329,815	70.69
Venture capital investments	**175,818**	**1.58**	223,733	2.16
Others	**1,000,295**	**9.02**	932,586	8.99
Total segments	**11,088,644**	**100.00**	10,368,831	100.00
Corporate assets	**683,762**		557,162	
Affiliates**	**1,375,160**		943,764	
	13,147,566		11,869,757	

** Including an investment in ECI as at December 31, 2004 and 2003 in the amount of NIS 673 million and NIS 726 million respectively, which operates in the telecommunications segment and investment in Tadiran Communications Ltd. which operates in the defense electronics in the amount of NIS 602 million as at December 31, 2004.

Note 24 - Business Segments (cont'd)

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

	December 31			
	2004		2003	
	NIS thousands	%	NIS thousands	%
Identifiable liabilities				
Segments:				
Telecommunications	**215,060**	**6.87**	263,873	9.12
Defense electronics	**668,157**	**21.34**	728,443	25.16
Agro-chemicals and other chemicals	**2,089,083**	**66.72**	1,733,760	59.89
Venture capital investments	**24**	**-**	8,930	0.31
Others	**158,607**	**5.07**	159,870	5.52
Total segments	**3,130,931**	**100.00**	2,894,876	100.00
Corporate liabilities	**49,515**		63,676	
	3,180,446		2,958,552	
Financing commitments	**4,725,771**		4,697,239	
Others	**647,458**		396,772	
	8,553,675		8,052,563	

	Year ended December 31					
	2004		2003		2002	
	NIS thousands	%	NIS thousands	%	NIS thousands	%
Capital investments:						
Segments:						
Telecommunications	**21,015**	**2.39**	7,173	2.25	15,554	1.19
Defense electronics	**21,408**	**2.44**	28,210	8.85	45,753	3.48
Agro-chemicals and other chemicals	**816,287**	**92.9**	277,195	86.94	1,241,091	94.53
Others	**19,991**	**2.27**	6,262	1.96	10,464	0.80
Total segments	**878,701**	**100.00**	318,840	100.00	1,312,862	100.00
Corporate assets	**423**		392		108	
	879,124		319,232		1,312,970	

Note 24 - Business Segments (cont'd)

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

	Year ended December 31					
	2004		2003		2002	
	NIS thousands	%	NIS thousands	%	NIS thousands	%
Depreciation and amortization:						
Segments:						
Telecommunications	**31,863**	**6.89**	44,696	10.17	57,664	13.67
Defense electronics	**35,721**	**7.72**	39,297	8.94	49,825	11.81
Agro-chemicals and other chemicals	**364,995**	**78.91**	318,492	72.47	278,482	66.03
Others	**29,957**	**6.48**	37,029	8.42	35,792	8.49
Total segments	**462,536**	**100.00**	439,514	100.00	421,763	100.00
Corporate assets	**1,264**		13,050		1,817	
	463,800		452,564		423,580	

D. Revenues from sales and services by geographic destinations according to customer location

	Year ended December 31		
	2004	2003	2002
	NIS thousands		
North America	**1,542,409**	1,152,009	1,125,915
Europe	**3,150,853**	2,473,635	1,864,012
South America	**2,056,261**	1,670,256	1,213,485
Asia and Australia	**842,986**	1,050,873	1,123,387
Africa	**256,010**	323,206	228,632
Israel	**1,380,154**	1,020,451	1,544,359
	9,228,673	7,690,430	7,099,790

Note 24 - Business Segments (cont’d)

E. Assets by geographic location of manufacturing operation

	December 31	
	2004	2003
	NIS thousands	NIS thousands
Israel	**9,411,628**	8,636,399
South America	**1,821,643**	1,530,178
Europe	**1,630,720**	1,495,176
United States	**169,497**	167,808
Others	**114,078**	40,196
	13,147,566	11,869,757

F. Capital investments in assets by geographic location

	December 31	
	2004	2003
	NIS thousands	NIS thousands
Israel	**798,310**	248,131
Brazil	**37,184**	40,725
United States	**2,839**	2,719
Others	**40,791**	27,657
	879,124	319,232

Note 25 - Transactions and Balances with Interested Parties

A. The following are details of interested parties in Koor resulting from their holdings of Koor’s ordinary shares:

1. Claridge Group (Claridge).

2. Anfield Ltd.

B. On October 15, 2002 the Board of Directors of Bank Hapoalim B.M. decided, on the distribution of a dividend in kind of all its holdings in the Company. On November 27, 2002, the date of actual distribution, Bank Hapoalim B.M. ceased to be an interested party in the Company.

During the period when Bank Hapoalim B.M. was an interested party, Koor and its consolidated companies also made transactions with Bank Hapoalim. These transactions, which were mainly for receipt of banking services, were made in the normal course of business, and therefore, no separation is made with regard to the management and the recording of the transactions.

Note 25 - Transactions and Balances with Interested Parties (cont'd)

C. Benefits to interested parties - Company

1. Directors [(*)]

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
Directors not employed by the Company: Annual compensation and participation in meetings:			
Claridge Group	**116**	115	245
Number of directors	**2**	3	3
Poalim Assets (Shares) Ltd.	**-**	-	95
Number of directors	**-**	-	2
Other directors	**516**	442	533
Number of directors	**8**	8	10

(*) Including directors who have been replaced during the year.

2. Consultancy services

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
Claridge	**1,788**	1,789	1,871
Poalim Capital Markets and Investment Ltd.	**-**	-	1,433

The Company has agreements with interested parties - Poalim Capital Markets and Investments Ltd. (Poalim) (at the time when Bank Hapoalim B.M. was an interested party) and Claridge for the receipt of consultancy services. These services include, inter alia, advice in respect of investment strategies, monetary policies, international activities, strategic partnerships and company structuring. The agreements include instructions regarding the indemnification of the consultants (Claridge/Poalim) 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 has agreed to pay an annual sum which will not exceed 400,000 dollars to each of the consultants. The agreements are for the period of one year and are automatically renewable each year, unless one of the parties gives 60 days' prior notice of the termination of the agreement.

On the date on which Bank Hapoalim ceased to be an interested party in Koor, the agreement with Poalim expired.

3. See Note 18A(14) regarding insurance and indemnification of interested parties.

Note 26 - Earnings (Loss) Per Share

A. Adjusted net earnings (loss) used in the computation of earnings per NIS 1 par value of the share capital:

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
Net earnings (loss) used in the computation of earnings (loss) per NIS 1 par value of shares	**144,990**	46,362	(766,969)

B. Weighted number of ordinary shares of NIS 0.001 used in the computation of net earnings (loss) per NIS 1 par value of the share capital:

	Number of ordinary shares		
	2004	**2003**	**2002**
Total share capital used in the computation of 16,381,279	**16,381,279**	15,716,725	15,173,291

C. To examine that the conversion or exercise of convertible securities is reasonable, the present value of these securities was computed according to a discount rate of 3.5% (December 31, 2003 - 4%, December 31, 2002 - 6%) for securities linked to the CPI.

Note 27 - Events Subsequent to the Balance Sheet Date

1. In January 2005, M-A Industries, through a wholly-owned and controlled subsidiary, signed an agreement to acquire 49% of the shares and rights of Mabeno, a Dutch company serving as exclusive distributor of the agrochemical products of the Makhteshim-Agan Group in Benelux and Scandinavia.
   Under the terms of the agreement, the purchase will be effected in consideration for the allotment of the number of shares of M-A Industries equal to 2,940 thousand euro(about NIS 17 million), according to the share's market price on the transfer date. Additionally, M-A Industries received an option to increase its holdings in Mabeno to 55%.

2. In January 2005, a lawsuit and a motion to recognize it as a class action, were filed in a U.S. court against ECtel, directors and officers of ECtel and against ECI. In their lawsuit, the plaintiffs claim that, in the period between April 2001 and April 2003, ECtel violated provisions of the U.S. securities laws, and that directors and officers of ECtel breached their duty of faith in connection with the disclosure of its business results in its financial statements. The lawsuit was also directed against ECI, because control in ECtel during that period was held by ECI, and the plaintiffs claim that the acts and omissions of ECtel were directed by and carried out at ECI's initiative. The plaintiffs did not cite the amount they are claiming. Management of ECI is of the opinion that the plaintiffs' claims, as they relate to it, are baseless.

3. In February 2005, ECI entered into a preliminary agreement with ABN Amro Bank for the sale of the balance of long-term receivables for cash totalling 96 million dollars, as well as possible future consideration of 3.3 million dollars. The sale is subject to several conditions and approvals, including approval from the shareholders of ECI, and is expected to be approved in April 2005. The sale is expected to generate a gain to ECI of 11 million dollars (excluding the future consideration). The Company's share in the aforementioned gain will be NIS 15 million.

Note 27 - Events Subsequent to the Balance Sheet Date (cont'd)

4. On February 3, 2005, Koor sold 15.9 million shares of M-A Industries for NIS 374 million, at a gain of NIS 204 million, which will be charged in the Company's financial statements for the first quarter of 2005.

   Within the framework of the sale, Koor undertook to not sell additional shares of M-A Industries for a nine-month period beginning from the date of the sale.

   Following the sale of the shares by Koor in February 2005, as a result of which Koor's shareholding percentage in M-A Industries fell to 34.6% (29.5% on a fully diluted basis), the management of Koor reevaluated the issue of continuing to consolidate M-A Industries, beginning from the first quarter of 2005.

   Based on an evaluation of the range of circumstances, as discussed in Note 3C(1), Koor decided that due to the combination of new circumstances created as a result of the aforementioned sale of its holdings, continuation of the consolidation of M-A Industries is not consistent with the economic substance. Therefore, beginning from the first quarter of 2005, the consolidation of M-A Industries in the financial statements of Koor will be discontinued, and the investment therein will be stated by the equity method.

5. On March 14, 2005, M-A Industries published a prospectus offering employees of M-A Industries and its subsidiaries up to 14,900 thousand stock options exercisable for up to 14,900 ordinary registered shares of par value NIS 1 of M-A Industries.
   Assuming all the options are exercised, the grantees will hold approximately 3.05% of M-A Industries issued and paid share capital. However, the grantees will not be issued the full number of shares underlying the options, but only the number of shares reflecting the monetary benefit implicit in the options.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements

A. Differences between Israel GAAP and US GAAP

Koor's consolidated financial statements conform with Israeli generally accepted accounting principles ("Israeli GAAP"), which differ in certain respects from those generally accepted in the United States of America ("US GAAP") as described below:

1. Effect of inflation

In accordance with Israeli GAAP:

The Company, in accordance with Israeli GAAP, comprehensively includes the effect of price level changes in the accompanying financial statements, as described in Note 2B. According to such Israeli accounting principles, the Company has discontinued the adjustment of the financial statements as of January 1, 2004.

US GAAP does not provide for recognition of the effects of such price level changes. Such effects have not been included in a reconciliation to US GAAP.

2. Debt arrangement within the framework of an overall financial arrangement

In accordance with Israeli GAAP:
Koor reported an extraordinary gain in 1991 as a result of restructuring part of its debts.

In accordance with US GAAP:
In accordance with FAS No. 15 - "Accounting by Debtors and Creditors for Doubtful Debt Restructuring" future interest payments were deducted from the restructuring of an old debt.
The recognition of non-realized earnings (which represents deferred interest) is affected by payments of interest over the period from the date of the restructuring of the debt up to its repayment date.
As at December 31, 2002, the entire balance of the deferred interest was fully amortized.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

3. Deferred taxes

a) Measurement differences

In accordance with Israeli GAAP:

Deferred taxes should be recognized in respect of differences related to assets and liabilities that result from translation of the local currency into the functional currency using historical exchange rates and that result from (1) changes in exchange rates or (2) indexing for tax purposes.

In accordance with US GAAP:
According to paragraph 9(f) of FAS No. 109, deferred tax liabilities or assets are not provided for differences related to assets and liabilities that are remeasured from the local currency into the functional currency and that result from (1) changes in exchange rates or (2) indexing for tax purposes.

b) Earnings from “Approved Enterprises”

Under the Israeli Law for the Encouragement of Capital Investments, 1959, a 25% tax rate is generally applicable on the profits of an "approved enterprise" that received investment grants, usually during a period of seven years.

An "approved enterprise" which chooses the “alternative benefits” track is generally eligible for tax benefits during the benefit period (seven or ten years, depending on the geographical location of the approved enterprise) as follows: tax exemption on undistributed profits during a period of two to ten years depending on the geographical location of the approved enterprise and a reduced tax rate of 25% for the remainder of the benefit period.

In the event that a dividend is distributed out of tax-exempt earnings of the "approved enterprise" under the “alternative benefits” track, the distributing company will generally be subject to 25% tax on the distributed earnings.

Dividends paid to shareholders from the earnings of an "approved enterprise" are subject to income tax at a rate of 15%. However, if the shareholder is a company, that shareholder will be entitled to a 15% tax credit, if and when such dividend out of "approved enterprise" earnings is distributed to its shareholders.

In accordance with Israeli GAAP:
Deferred taxes should be provided on the excess of the financial statement carrying value over the tax basis of an investment in an Israeli subsidiary as the Company does not have any means under local tax law to recover this difference in a tax-free manner.

Koor has not provided deferred tax in respect of undistributed tax-exempt or tax reduced earnings attributed to the "approved enterprise" of subsidiaries, which may be distributed, since it is the Group's policy not to initiate such a dividend distribution.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

3. Deferred taxes (cont'd)

In accordance with US GAAP:
A reserve for deferred tax should be provided on the undistributed tax-exempt earnings of local subsidiaries established subsequent to December 15, 1992, as their distribution results in additional tax.

4. Salary expenses in respect of share options issued to employees

In accordance with Israeli GAAP:
No expense is recorded due to stock options granted to employees.

In accordance with US GAAP:

a) Fixed Option Plan:

Under APB-25, the expense is measured as the difference between the share market price and the exercise price of the option, at the date of grant. The difference is charged as a salary expense during the period in which the employee performs the services for which the benefit was granted.

b) Variable Option Plan:

Under APB-25 the expense is measured as the difference between the share market price and the exercise price of the option at the end of each reporting period. In each reporting period the expense is recorded based on the vested part of the period which has passed, taking into consideration amounts previously recorded as expenses.

5. The accounting treatment of marketable securities:

In accordance with Israeli GAAP:
Marketable securities which constitute a short-term investment are stated at market value. Changes to the market value are recorded as profits or losses.

Marketable securities which constitute a permanent investment are stated at cost (regarding debentures, including accumulated interest), except where market value is lower, and the decline in value is not considered to be temporary. (See Note 2H).

In accordance with US GAAP:
FAS No. 115 differentiates between three categories of marketable securities: securities held for a short period and traded at a high frequency (trading securities), available for sale securities and held to maturity securities.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

5. The accounting treatment of marketable securities: (cont'd)

A change in the value of trading securities, including unrealized earnings, is charged to the statement of operations, while unrealized earnings after tax, if any, of the available for sale type is reported as a separate item within shareholders' equity.
Marketable securities that are classified as held-to-maturity are stated at cost (regarding debentures, including accumulated interest), except where market value is lower, and the decline in value is not considered to be temporary.

Most of the short term securities held by the Company are available-for-sale securities.

6. Allocation of proceeds from an issuance of debentures and stock warrants, when securities are issued as a package (issuance by Koor in 1994):

According to the accounting policy at this issuance:
The proceeds from an issuance of debentures and stock warrants, as a package, are allocated to debentures according to their face value while the remainder of the proceeds is attributed to the share warrants.

In accordance with US GAAP:
The proceeds from an issuance of share options and convertible debentures, as a package, are split based on the relative fair value, of these securities at the date of issuance. This will sometimes result in the recording of a discount in respect of the convertible debentures that is to be amortized as interest expense over the term of debentures.

As at December 31, 2003, the entire balance of the deferred interest was amortized in full.

7. Provisions for anticipated losses from realization of convertible securities of investee companies:

In accordance with Israeli GAAP:
According to Opinions No. 48 and 53 of the ICPAI, a parent company is required to create a provision for losses, which it may incur from the dilution of its holdings in investee companies, when it is probable that the share options will be exercised or the debentures will be converted.

In accordance with US GAAP:
A loss in the parent company resulting from the dilution of its holdings, because of share options being exercised or debentures being converted, is recorded only at the time of exercise or conversion.

8. Employee severance benefits as a part of an efficiency program:

In accordance with Israeli GAAP:
Up to and including 2002 employee severance benefits, as part of future anticipated dismissals, were recorded when management decided on the dismissals, and/or when management declared its intention regarding the dismissals.
Since 2003, management's decision or intention regardingthe dismissals does not in itself constitute a reason to record a provision for employee severance benefits, rather a provision is recorded only when an obligation to the employees exists.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

8. Employee severance benefits as a part of an efficiency program: (cont'd)

In accordance with US GAAP:

One-time termination benefits are benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement. A one-time benefit arrangement is an arrangement established by a plan of termination that applies for a specified termination event or for a specified future period.

A one-time benefit arrangement exists at the date the plan of termination meets all of the following criteria and has been communicated to employees (hereinafter referred to as the communication date):

a. Management, having the authority to approve the action, commits to a plan of termination.

b. The plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date.

c. The plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

9. Earnings per share:

In accordance with Israeli GAAP:
In accordance with Opinion No. 55, the dilutive effect of share options and convertible debentures is included in the computation of basic earnings per share if their exercise or conversion is considered to be probable. Calculation of the probability is based on the ratio between the market price of the shares and the present value of the price of exercising the stock options into shares or the present value of the payments for conversion of the debentures into shares.

In accordance with US GAAP:
In accordance with FAS 128 "Earnings Per Share" - basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the year and does not include any dilutive potential effect of convertible instruments. Diluted earnings per share arecomputed on the basis of the weighted average number of shares outstanding during the year, plus the dilutive potential effect of ordinary share options considered outstanding during the year.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

10. Venture capital fund investments:

In accordance with Israeli GAAP:
Venture capital fund investments in venture capital investments are presented according to their cost less a provision for devaluation in the event of a permanent devaluation.

In accordance with US GAAP:
Venture capital fund investments are presented according to their fair value.

11. Revenue recognition – Adoption of SAB 101:

In accordance with US GAAP:
During the fourth quarter of 2000, the US SEC published Staff Accounting Bulletin No. 101 (hereinafter - "SAB 101"), which provides stricter criteria for revenue recognition implemented retroactively to the beginning of 2000, by way of cumulative effect at the beginning of the year and presentation of the previous quarters once again.

ECI implemented these guidelines in its financial statements, which are prepared in accordance with US GAAP. The cumulative effect, of the sales deferred upon initial adoption of SAB 101, under US GAAP, was recognized over the years 2000 through 2003. Commencing in 2004, there is no additional impact from the deferral of these revenues.

In accordance with Israeli GAAP:
The provision does not apply in Israel, although it is possible to adopt the principles set out in the rule, if management estimates that the method of revenue recognition prescribed in SAB 101 is appropriate for economic and commerce conditions presently existing in its area of business.
This rule was adopted prospectively as of the fourth quarter of 2000, without implementing cumulative effect to the beginning of 2000 and without presenting data, which has already been published in the past.

12. Exchange of assets:

In accordance with Israeli GAAP:
Certain share exchange transactions were considered as exchanges of similar assets transactions and therefore neither a profit nor a loss was recorded subsequent to the transaction and the newly acquired assets were recorded based on book value of the original assets.

In accordance with US GAAP:
According to EITF 98-3 and EITF 01-2 such transactions are not considered as exchanges of similar assets transaction and therefore the newly acquired assets were recorded based on their fair values.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

13. Derivatives

In accordance with Israeli GAAP:
The Company applied FAS 52, FAS 80 and EITF 90-17 to account for its financial derivatives.
The results of financial derivatives held to hedge assets and liabilities are recorded in the statement of operations concurrently with the recording of the changes in the hedged assets and liabilities. 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 occurred.

In accordance with US GAAP:
The Company applied FAS 133 to the derivatives.
Most derivatives in the consolidated group do not meet the hedging criteria prescribed by FAS 133, therefore they are stated at fair value and changes in the fair value are charged to the statement of operations in the period they occurred.

14. Impairment of Assets and Investments

In accordance with Israeli GAAP:
The Company applied Standard No. 15 under which the Company is required to test the recoverable amount of the assets, which is the higher of the net sales price and usage value. A loss from impairment will be reversed only if changes have occurred in the estimates used in determining the recoverable value of the asset, from the date of recognition of the last impairment.

In accordance with US GAAP:
The Company applied FAS 144 with respect to long-lived assets and APB 18 with respect to equity method investees.
Under FAS 144 an impairment of a long-lived asset is considered to be impaired only if the undiscounted cash flows of the related asset do not exceed its book value.

Under APB 18 a loss is recorded only when the impairment of the investee is other than temporary.
Under both FAS 144 and APB 18 reversals of impairments are not allowed.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

14. Impairment of Assets and Investments (cont'd)

ECI's impairment:

In accordance with Israeli GAAP, on September 30, 2002 the Company wrote down its equity method investment in ECI by NIS 130 million (see Note 3A(1)). Of the NIS 130 million write down, the Company realized a capital reserve from foreign currency translation adjustments generated by Koor in relation to its investment in ECI, in the amount of NIS 105 million. The balance of NIS 25 million was charged to the statement of income.
In accordance with US GAAP, under FAS 52, the capital reserve from translation differences will be realized only upon realization of the investment or liquidation of the investee company. Accordingly, an expense in respect to impairment in value was charged to the statement of operations of 2002.

Under US GAAP, due to the fact that Koor's share in ECI's shareholders' equity was higher than its investment in ECI, the excess of Koor's share in the equity over the investment was attributed to ECI's non-current assets.

From November 2003, the Company reversed the impairment under Israeli GAAP. The cancellation was recorded against the capital reserve from translation differences (credit) which was realized when the provision was recorded. According to US GAAP, the reversal of the impairment was not allowed.

15. Amortization of Goodwill:

In accordance with Israeli GAAP:
Goodwill is amortized over its economic life which may not exceed 20 years. Goodwill is monitored for an impairment in value where there are indications indicating a permanent impairment in the value of the goodwill.

In accordance with US GAAP:
Effective January 1, 2002, goodwill balances are not amortized systematically but are instaed evaluated for recoverability by means of an impairment test to be performed at least once a year on a fixed date in accordance with the directives of FAS 142. Impairment of goodwill subsequent to the first implementation of the impairment test on January 1, 2002, was recorded as a cumulative effect in respect of a change in the accounting method. Accordingly, a cumulative effect of NIS 806 thousand was recorded in the adjustment note in 2002.
No further impairments have been required subsequent to the initial implementation.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

16. Consolidation of M-A Industries

As a result of the sale of shares of M-A Industries at the beginning of 2004, Koor's share in M-A Industries decreased to below 50%.

In accordance with Israeli GAAP:
The position of the Israeli Securities Authority is that when a company has been consolidated in the financial statements of the holding company and there has been a decrease in the voting rights to below 50%, if the overall economic circumstances have not essentially changed the consolidation of the investee company should be continued because of the importance of continuity and consistency of the accounting reports. Therefore and as explained in Note 3C(1) Koor continues to consolidate M-A Industries' financial statements.

In accordance with US GAAP:
The condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of over fifty percent of the outstanding voting shares of another company is a prerequisite for consolidation. Therefore, M-A Industries is accounted under the equity method for US GAAP purposes, beginning in 2004.

17. Capitalization of licensing costs

In accordance with Israeli GAAP:
Certain costs incurred by the Company in connection with the registration process to obtain licenses to sell products in various jurisdictions are capitalized.

In addition, amounts which are paid by the Company to the original registrant as data compensation costs only after the U.S. Environmental Protection Agency (hereinafter: "EPA") issues a registration to the Company are also capitalized.

The capitalized licensing costs are amortized over the expected benefit period.

In accordance with U.S. GAAP:
The costs incurred by the Company in connection with the registration process to obtain licenses to sell products in various jurisdictions are deemed to be development costs under US GAAP and are expensed as incurred.

The amounts paid by the Company to the original registrant as data compensation costs only after the EPA issues a registration to the Company are capitalized and amortized over the expected benefit period.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

18. Liabilities for employee severance benefits

In accordance with Israeli GAAP:
Amounts funded by purchase of insurance policies and by deposits with recognized severance pay funds are deducted from the related severance pay liability, which is then presented at a net amount.

In accordance with US GAAP:
The amounts funded would be presented as other long-term assets and the amount of the liability would be presented under long-term liabilities.

19. Restatement

In prior years, one of the Company's subsidiaries capitalized for U.S. GAAP purposes certain costs incurred in connection with the registration process to obtain licenses to sell products in various jurisdictions. Under U.S. GAAP these costs are deemed to be development costs and should have been expensed as incurred.

In addition, one of the Company's subsidiaries incorrectly applied FAS No 109 with respect to the calculation of certain deferred tax items relating to temporary differences that arose from currency exchange rate differences.

Therefore, the reconciliation of material differences between Israeli and US GAAP has been restated. The impact on the reconciliation is disclosed below:

	As reported	As restated
2003		
Net loss	(105,308)	(108,924)
Earnings (loss) per ordinary share	(6.81)	(7.04)
Intangible assets	2,240,439	(2,011,874)
Deferred taxes	269,468	206,189
Minority interests	1,774,894	1,689,966
Shareholders equity	1,662,480	1,582,122
2002		
Net loss	(761,561)	(762,511)
Earnings (loss) per ordinary shares	(50.18)	(50.25)

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

B. The effect of the material differences between Israeli and US GAAP on the financial statements

1. Statements of operations:

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
a) Net earnings (loss) as reported, according to Israeli GAAP	**144,990**	46,362	(766,969)
Amortization of deferred interest in respect of the restructuring of debts	**-**	-	4,812
Salary expenses in respect of share options issued to employees	**(91,318)**	(185,276)	486
Loss (gain) from marketable securities, net	**(4,295)**	(58,319)	54,145
Provisions for anticipated losses from realization of convertible securities in investee companies	**10,106**	50,729	(515)
Amortization of discount in respect of convertible debentures	**-**	(18)	(338)
Severance pay arising from an efficiency program	**17,326**	(10,181)	7,130
Capital gain from a decline in holding in consolidated company	**11,829**	-	6,199
Venture capital investments	**(20,726)**	15,790	(16,327)
Temporary differences resulting from recognition of revenue arising from application of SAB 101	**-**	7,949	2,230
Profit from exchange of assets	**-**	-	15,105
Discontinued activities	**-**	-	835
Impairment in value of assets and investments	**(1,277)**	(4,983)	5,858
Differences from investee due to impairment previously recorded	**29,588**	(19,676)	(14,342)
Foreign currency translation due to impairment	**-**	-	(105,124)
Amortization of goodwill	**39,938**	40,949	87,234
Expensing of licensing costs	**(8,859)**	*(16,793)	*(53,594)
Derivatives (FAS 133)	**4,602**	(34,002)	(12,690)
Other	**711**	1,078	(4,669)
	(12,375)	(212,753)	(23,565)
Income taxes	**(21,212)**	(79,808)	42,434
Minority interests in respect of the above differences	**170**	*137,275	*(13,605)
	(33,418)	(155,286)	5,264
Cumulative effect as beginning of the year	**-**	-	(806)
	(33,418)	(155,286)	4,458
Net earnings (loss) according to US GAAP	**111,572**	*(108,924)	*(762,511)

* Restated, see Note 28A(19).

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

B. The effect of the material differences between Israeli and US GAAP on the financial statements (cont'd)

1. Statements of operations (cont'd):

b) Earnings (loss) per ordinary share

	Year ended December 31		
	2004	**2003**	**2002**
		NIS	
Basic earnings per ordinary share:			
As reported according to Israeli GAAP	**8.85**	2.95	(50.55)
As reported according to US GAAP	**7.05**	* (7.04)	* (50.25)
Weighted average of number of shares and share equivalents according to US GAAP	**15,824,185**	15,474,614	15,173,291
Fully diluted earnings per ordinary share:			
As reported according to Israeli GAAP	**8.85**	2.95	(50.55)
As reported according to US GAAP	**4.89**	* (7.82)	* (50.65)
Weighted average of number of shares and share equivalents according to US GAAP	**16,242,770**	**15,474,614	**15,173,291

* Restated, see Note 28A(19).

** Share equivalents are not reflected in US GAAP due to the fact that they are anti-dilutive.

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

B. The effect of the material differences between Israeli and US GAAP on the financial statements (cont'd)

2. Balance sheet:

	December 31						
	2004				2003		
	Israeli GAAP	Discontinuance of consolidation of M-A Industries(11)	Adjustments	US GAAP	Israeli GAAP	Adjustment	US GAAP
Cash and cash equivalents	**617,310**	**(174,375)**	**-**	**442,935**	593,403	-	593,403
Short-term deposits and investment (1)	**416,468**	**(6,733)**	**32,911**	**442,646**	366,809	-	366,809
Receivables	**2,173,599**	**(1,590,552)**	**-**	**583,047**	2,052,461	10,847	2,063,308
Other receivables	**528,983**	**(332,817)**	**-**	**196,166**	452,170	-	452,170
Inventories and projects in progress	**2,294,885**	**(1,985,428)**	**-**	**309,457**	1,885,751	-	1,885,751
Assets designed for sale	**41,765**	**-**	**-**	**41,765**	42,525	-	42,525
Investments in affiliates (2)	**1,375,160**	**1,471,197**	**(154,317)**	**2,692,040**	943,764	(60,839)	882,925
Investments and other receivables (1)(3)	**489,031**	**(95,073)**	**202,105**	**596,063**	483,384	290,230	773,614
Fixed assets, net	**2,852,907**	**(1,876,731)**	**8,574**	**984,750**	2,928,407	11,455	2,939,862
Intangible assets after amortization (4)	**2,357,458**	**(2,316,290)**	**30,198**	**71,366**	2,121,083	*(109,209)	*2,011,874
Total assets	**13,147,566**	**(6,906,802)**	**119,471**	**6,360,235**	11,869,757	*142,484	*12,012,241
Short-term liabilities	**1,738,456**	**(603,210)**	**-**	**1,135,246**	1,577,402	-	1,577,402
Trade payables	**1,667,455**	**(1,404,171)**	**-**	**263,284**	1,342,783	-	1,342,783
Other payables (5)(6)	**1,369,442**	**(867,233)**	**8,020**	**510,229**	1,270,217	75,551	1,345,768
Customer advances	**353,371**	**(9,891)**	**-**	**343,480**	350,535	-	350,535
Bank loans and other	**2,341,115**	**(440,968)**	**-**	**1,900,147**	3,119,837	-	3,119,837
Convertible debentures	**811,291**	**(811,291)**	**-**	**-**	340,270	-	340,270
Deferred taxes (7)	**240,468**	**(234,157)**	**29,304**	**35,615**	199,787	*6,402	*206,189
Liability for employee severance benefits (3)	**197,168**	**(115,061)**	**197,614**	**279,721**	192,002	265,365	457,367
Minority interests (8)	**2,552,333**	**(2,420,820)**	**(6,850)**	**124,663**	1,736,531	*(46,565)	*1,689,966
Capital reserve for “available-for-sale" securities (2)	**-**	**-**	**6,442**	**6,442**	-	(30,074)	(30,074)
Capital reserves (9)(10)	**2,358,425**	**-**	**276,419**	**2,634,844**	2,367,341	*229,863	*2,597,204
Retained losses (8)	**(966,152)**	**-**	**(391,478)**	**(1,357,630)**	(1,111,142)	*(358,060)	*(1,469,202)
Total shareholders’ equity	**1,876,467**	**-**	**(108,617)**	**1,767,850**	1,740,393	*(158,271)	*1,582,122

*** Restated, see Note 28A(19).**

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

B. The effect of the material differences between Israeli and US GAAP on the financial statements (cont'd)

(1) Adjustment of value of investment securities to market value.
(2) Adjustments to the investments in M-A Industries and ECI
(3) Reconciliation of deposits funded in respect of severance pay.
(4) Reversal of periodical provisions related to goodwill and intangible assets.
(5) Provision for employee severance benefits resulting from an efficiency program.
(6) Financial derivatives.
(7) Change in deferred taxes.
(8) Effects of the reconciliation to US GAAP.
(9) Share options issued to employees.
(10) Cumulative foreign currency translation adjustments, cancellation of provision for decline in value of autonomous investee.
(11) See Note 28 A(16).

3. Comprehensive loss

"Comprehensive earnings (loss)" consists of the change, during the current period, in the Company's shareholder equity that does not derive from shareholders' investments or from the distribution of earnings to shareholders.

Comprehensive earnings (loss) include two components - net earnings and other comprehensive earnings. Net earnings are the earnings stated in the statement of operations and other comprehensive earnings include the amounts that are recorded directly in shareholders' equity and that do not derive from transactions with shareholders.

	Year ended December 31		
	2004	**2003**	**2002**
	NIS thousands		
Net earnings (loss) according to US GAAP	**111,572**	*(108,924)	*(762,511)
Other comprehensive earnings, after tax:			
Adjustments from translation of financial statements of investee companies	**(9,546)**	*(143,585)	*389,873
FAS 133	**(10,964)**	6,487	(5,397)
Unrealized gains (loss) from securities	**36,516**	32,572	(54,145)
Total other comprehensive earnings (loss)	**16,006**	(104,526)	330,331
Total comprehensive earnings (loss)	**127,578**	(213,450)	(432,180)

* Restated, see Note 28A(19).

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

C. Condensed figures of M-A Industries and ECI according to Regulation S-X 4-08

(1) M-A Industries condensed figures

A. As at December 31, 2004

	Israeli GAAP US$ thousands	Adjustments US$ thousands	US GAAP US$ thousands
Current assets	949,338	5,323	954,661
Non-current assets	985,229	42,118	1,027,347
Current liabilities	669,571	14,685	684,256
Non-current liabilities	333,423	24,631	358,054
Minority interests	18,756	(1,981)	16,775
Convertible debentures	38,322	-	38,322

B. For the year ended December 31, 2004 according to Israeli GAAP

Revenue from sales and services	1,539,702
Gross profit	595,794
Net income according to Israeli GAAP	165,527
Adjustment to US GAAP	(41,789)
Net income according to US GAAP	123,738

(2) ECI's condensed figures according to US GAAP

	2004 US$ thousands	2003 US$ thousands
As at December 31		
Current assets	449,556	537,528
Non-current assets	405,253	364,468
Current liabilities	248,012	242,037
Non-current liabilities	50,943	86,673
Minority interests	4,086	3,781
For the year ended December 31		
Revenues	496,712	392,567
Gross profit	195,741	153,269
Income (loss) from continuing operations	14,056	(44,723)
Net income (loss)	10,153	(71,040)

Note 29 - Events (Unaudited) Subsequent to the Date of the Independent Auditors' Report

A. On July 6, 2005 the Company signed an amendment to the agreements with Elbit and Federman (see Note 3H(2)), pursuant to which the Company will sell its entire holdings in Elisra to Elbit, instead of to Tadiran Communications as per the original agreements, for approximately $70 million and additional consideration following receipt of future insurance proceeds. The Company also received the right to acquire Dekolink Ltd., a start-up company in the cellular field that is wholly-owned by Elisra. As originally agreed, the Company will sell the balance of its holdings in Tadiran Communications to Elbit for $83 million. However, under the amended terms of the transactions, contrary to the terms of the original agreement, this sale will be conducted in two parts, and the Company and Elbit will share joint control of Tadiran Communications, as described in Note 3H(2), following the sale of the first 5%. The sale of the Company's remaining shares in Tadiran Communications is contingent on the execution of the sale of its holdings in Elisra to Elbit. Elbit's acquisition of Elisra is subject to the approvals of Elbit's shareholders at general meeting to be held within sixty days and Israel's Anti-Trust Commissioner. In addition, under the amended terms of the transactions, contrary to the terms of the original agreement, the Company will acquire only an additional 2.3% of Elbit from Federman for $25 million, regardless of whether the sale of Elisra is approved by the Israeli Anti-Trust Commissioner. Upon completion of all the stages of these transactions, the Company will hold approximately 7.6% of Elbit.

B. On April 10, 2005, as part of a private placement to Israeli institutional investors, the Company issued NIS 400 million par value in debentures for NIS 400 million in cash, as well as 800,000 options without consideration. 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. Each option is exercisable for one ordinary share par value NIS 0.001 of the Company until April 30, 2010, at an exercise price of NIS 300. The Company intends to register for trade on the Tel-Aviv stock exchange the shares that will ensue from exercise of the options.

C. On June 7, 2005, the Company received a bill of indictment from the Anti-Trust Authority in accordance with the notice from February, 2 2005 as described in Note 18A(1)(b).

[Letterhead of Kost, Forer Gabbay & Kasierer, a Member of Ernst & Young Global]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS OF

TADIRAN COMMUNICATIONS LTD.

We have audited the consolidated balance sheet of Tadiran communications Ltd. ("the Company") and its subsidiaries as of December 31, 2004 (not presented separately herein.) This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit. We did not audit the balance sheet of a certain subsidiary, whose assets included in consolidation constitute approximately 7% of total consolidated assets as of December 31, 2004. The balance sheet of this subsidiary was audited by other independent auditor, whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for this certain subsidiary, is based solely on the report of the other independent auditors.

We conducted our audit 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other independent auditors, the consolidated balance sheet referred to above presents fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2004, in conformity with generally accepted accounting principles in Israel, which differ in certain respects from accounting principles generally accepted in the United States (see Note 32 to the consolidated financial statements).

/s/ Kost, Forer Gabbay & Kasierer

Tel-Aviv, Israel
March 20, 2005

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

[Letterhead of Hoberman, Miller, Goldstein & Lesser, P.C.]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder and Board of Directors
Talla-Com, Tallahassee Communications Industries, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Talla-Com, Tallahassee Communications Industries, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 audits 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Talla-Com, Tallahassee Communications Industries, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then needed, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States vary in certain significant respects from accounting principles generally accepted in Israel. Application of accounting principles generally accepted in Israel did not have a material effect on the results of operations, shareholder's equity and cash flows for the years ended December 31, 2004 and 2003.

/s/ Hoberman, Miller, Goldstein & Lesser, CPA'S, P.C.

January 28, 2005

[Letterhead of Brightman Almagor & Co., a Member Firm of Deloitte & Touche Tohmatsu]

Report of Independent Registered Public Accounting Firm To The Shareholders of Tadiran Electronic System Ltd.

We have audited the accompanying balance sheets of Tadiran Electronic System ("the Company") as of December 31, 2004 and 2003 and the related statements of operations, changes in shareholders' equity and cash flows, for each of the three years, in the period ended December 31, 2004. 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 conducted our audits in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations, changes in its shareholders' equity and its cash flows for the three years, in the period ended December 31, 2004, in conformity with generally accepted accounting principles in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 16 to the financial statements.

As explained in Note 2A, the financial statements are presented in U.S. dollars.

/s/ Brightman Almagor & Co.
Brightman Almago & Co.
Certified Public Accountants
Tel Aviv, Israel
February 14, 2005

[Letterhead of Brightman Almagor & Co., a Member Firm of Deloitte & Touche Tohmatsu]

Report of Independent Registered Public Accounting Firm To The Shareholders of Tadiran Spectralink Ltd.

We have audited the accompanying balance sheets of Tadiran Sprectralink Ltd. ("the Company") as of December 31, 2004 and 2003 and the related statements of operations, changes in shareholders' equity and cash flows, for each of the three years, in the period ended December 31, 2004. 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 conducted our audits in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations, changes in its shareholders' equity and its cash flows for the three years, in the period ended December 31, 2004, in conformity with generally accepted accounting principles in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 22 to the financial statements.

As explained in Note 2A, the financial statements are presented in U.S. dollars.

/s/ Brightman Almagor & Co.
Brightman Almagor & Co.
Certified Public Accountants
Tel Aviv, Israel
February 14, 2005

[Letterhead of Hoberman, Miller, Goldstein & Lesser, P.C.]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Member and Board of Directors
Tadiran Electronic Industries, LLC

We have audited the accompanying balance sheet of Tadiran Electronic Industries, LLC (formerly Tadiran Electronic Industries, Inc.) as of December 31, 2004 and the consolidated balance sheet of Tadiran Electronic Industries, LLC and Subsidiary as of December 31, 2003, and the consolidated statements of operations, member's equity, and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the financial statements 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tadiran Electronic Industries, LLC as of December 31, 2004 and the consolidated financial position of Tadiran Electronic Industries, LLC and Subsidiary as of December 31, 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information on pages 13 through 16 is presented for the purpose of additional analysis rather than to present the financial position and results of operations of the individual companies, and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Accounting principles generally accepted in the United States vary in certain significant respects from accounting principles generally accepted in Israel. Application of accounting principles generally accepted in Israel did not have a material effect on the results of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004.

/s/ Hoberman, Miller, Goldstein & Lesser, CPA'S, P.C.

January 21, 2005

[Letterhead of Hoberman, Miller, Goldstein & Lesser, P.C.]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Microwave Networks, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Microwave Networks, Inc. and Subsidiary as of December 31, 2004 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit 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 of material mismanagement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Microwave Networks, Inc. and Subsidiary as of December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States vary in certain significant respects from accounting principles generally accepted in Israel. Application of accounting principles generally accepted in Israel did not have a material effect on the results of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004.

/s/ Hoberman, Miller, Goldstein & Lesser, CPA'S, P.C.

January 21, 2005

[Letterhead of Kost, Forer Gabbay & Kasierer, a Member of Ernst & Young Global]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

KOOR TRADE LTD.

We have audited the accompanying balance sheets of Koor Trade Ltd. ("the Company") as of December 31, 2004 and 2003 and the related statements of operations, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2004 (not presented separately herein). These financial statements are the responsibility of the Company's 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 companies the investment in which based on the equity method of accounting, amounted to NIS 49 million and NIS 34.1 million as of December 31, 2004 and 2003, respectively, and the Company's equity in their income amounted to NIS 8.7 million, NIS 5.6 million and NIS 6.5 million for the years ended December 31, 2004, 2003 and 2002, respectively. Those financial statements which presented in accordance with U.S. generally accepted accounting principles, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts utilized by Company's management (before reconciliation to Israel generally accepted accounting principles), 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts (including the Company's reconciliation of the financial statements of the aforementioned certain subsidiaries to Israel generally accepted accounting principles from U.S. generally accepted accounting principles) and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended of December 31, 2004, in conformity with accounting principles generally accepted in Israel, which differ in certain respects from those followed in the United States, as described in Note 7 to the financial statements.

/s/ Kost, Forer Gabbay & Kasierer

Tel-Aviv, Israel
March 21, 2004

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

[Letterhead of Blick Rothenberg, Chartered Accountants]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE SHAREHOLDERS OF BALTON CP LIMITED

We have audited the accompanying consolidated balance sheets of Balton CP Limited (the "Company") and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. We were not engaged to perform an audit of the company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended of December 31, 2004, in conformity with accounting principles generally accepted in United States.

/s/ Blick Rothenberg
Blick Rothenberg
Chartered Accountants and Registered Auditors
London, England

20 March 2005

[Letterhead of Einfeld Symonds Vince]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS OF KOOR INTER-TRADE (ASIA) PTY LIMITED AND ITS SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of KOOR INTER-TRADE (ASIA) PTY LIMITED ("the Company") and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts (including the Company's reconciliation of the financial statements to Israel generally accepted accounting principles and to U.S. generally accepted accounting principles) and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended of December 31, 2004, in conformity with Australian generally accepted accounting principles, which differ in certain respects from those followed in the United States and in Israel as described in Note 1 to the consolidated financial statements.

Dated at Sydney the 8th day of March 2005

/s/ Einfeld Symonds Vince
EINFELD SYMONDS VINCE

Chartered Accountants

/s/ Graham B. Einfeld
GRAHAM B. EINFELD
Partner

[Letterhead of Kost, Forer Gabbay & Kasierer, a Member of Ernst & Young Global]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

LUXEMBURG PHARMACEUTICAL LTD.

We have audited the accompanying consolidated balance sheets of Luxemburg Pharmaceutical Ltd. ("the Company") and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2004 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts (including the Company's reconciliation of the consolidated financial statements to U.S. generally accepted accounting principles) and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for each of the two years in the period ended of December 31, 2004, in conformity with Israel generally accepted accounting principles, which differ in certain respects form those followed in the United States, as described in Note 21 to the consolidated financial statements.

/s/ Kost, Forer Gabbay & Kasierer

Tel-Aviv, Israel
February 17, 2005

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

[Letterhead of Kost, Forer Gabbay & Kasierer, a Member of Ernst & Young Global]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

LYCORED NATURAL PRODUCTS INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheets of Lycored Natural Products Industries Ltd. ("the Company") and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of a certain subsidiary, whose assets included in consolidation constitute approximately 18% and 16% of total consolidated assets as of December 31, 2004 and 2003, and whose revenues included in consolidation constitute approximately 37% and 35% of total consolidated revenues for the two years ended December 31, 2004. Those financial statements, presented in accordance with accounting principles generally accepted in the United Kingdom and including reconciliation to United States generally accepted accounting principles, were audited by other auditors whose reports as of and for the years ended December 31, 2004 and 2003, have been furnished to us, and our opinion, insofar as it relates to the amounts utilized by Company's management (before reconciliation to Israel generally accepted accounting principles) of and for the years ended December 31, 2004 and 2003, is based solely on the reports of 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. We were not engaged to perform an audit of the company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts (including the Company's reconciliation of the financial statements of the aforementioned subsidiary to Israel generally accepted accounting principles) and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended of December 31, 2004, in conformity with Israel generally accepted accounting principles, which differ in certain respects form those followed in the United States, as described in Note 21 to the consolidated financial statements.

/s/ Kost, Forer Gabbay & Kasierer

Tel-Aviv, Israel
February 24, 2005

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

Nutriblend LTD.

We have audited the accompanying balance sheets of Nutriblend Ltd. ("the Company") as at December 31, 2004 and 2003, and the related statements of operations, changes in shareholder's equity and cash flows for each of the two years in the period ended December 31, 2004 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. We were not engaged to perform an audit of the company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the two years in the period ended of December 31, 2004, in conformity with accounting principles generally accepted in United Kingdom, which differ in certain respects from those followed in the United States, as described in Note 22 to the financial statements.

/s/ Goodman Jones
London
January 20, 2005

Goodman Jones
Chartered Accountants Registered Author

[Letterhead of Kost, Forer Gabbay & Kasierer, a Member of Ernst & Young Global]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

TELRAD CONNEGY COMMUNICATIONS INC.

We have audited the accompanying consolidated balance sheet of Telrad Connegy Communications Inc. ("the Company") and its subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations in shareholders' equity (deficiency) and the consolidated cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2004, and 2003 and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States, which differ in certain respects from those followed in Israel, as described in Note 14 to the consolidated financial statements.

/s/ Kost, Forer Gabbay & Kasierer

Tel-Aviv, Israel
March 27, 2005

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

[Letterhead of Kost, Forer Gabbay & Kasierer, a Member of Ernst & Young Global]

Report Of Independent Registered Public Accounting Firm

to the Partners of Koor Venture Capital L.P.

We have audited the accompanying balance sheets of Koor Ventures Capital L.P. (the "Partnership") as at December 31, 2004 and 2003, and the related statements of operations, shareholders' equity and cash flows, for each of the three years, the last of which ended December 31, 2004. These financial statements are the responsibility of the Partnership's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of an affiliate, which Partnership's investment constitute NIS 12,466 thousand and NIS 7,313 thousand, as of December 31, 2004 and 2003, respectively, and its equity in losses constitute NIS 329 thousand for the years ended December 31, 2004, 2003 and 2002, respectively. The financial statements of the affiliate were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts included for the affiliate, is based solely on the said 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 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 the above-mentioned other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2004 and 2003 and the results of their operations, the changes in shareholders' equity and their cash flows for each of the three years, the last of which ended December 31, 2004 in conformity with accounting principles generally accepted in Israel.

As explained in Note 2, the financial statements for dates and reporting periods subsequent to December 31, 2003 are stated in reported amounts, in accordance with the accounting standards of the Israel Accounting Standards Board. The financial statements for dates and reporting periods that ended up to the aforementioned date are stated in values that were adjusted to that date according to the changes in the general purchasing power of the Israeli currency, in accordance with opinions of the Institute of Certified Public Accountants in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects form accounting principles generally accepted in the United States of America. (US GAAP). Information relating to the nature and effect of such differences is presented in Note 8 to the financial statements.

/s/ Kost, Forer Gabbay & Kasierer

Tel-Aviv, Israel
March 20, 2005

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

[Letterhead of Brightman Almagor & Co., a Member Firm of Deloitte & Touche Tohmatsu]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Scopus Network Technologies Ltd

We have audited the accompanying balance sheets of Scopus Network Technologies Ltd ("the Company") as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in shareholders' equity and cash flows, for each of the three years, in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2003, and the consolidated results of its operations, changes in its shareholders' equity and its cash flows for the three years, in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America vary in certain respects from accounting principles generally accepted in Israel. As stated in Note 2Q, for purposes of these financial statements, the application of the latter would not have materially effected the Company's net loss for each of the three years in the period ended December 31, 2004, and its shareholders' equity and its financial position as of December 31, 2004 and 2003 as reported in these financial statements.

/s/ Brightman Almagor & Co.
Brightman Almagor & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu
Tel Aviv, Israel
February 17, 2005

[Letterhead of Brightman Almagor & Co., a Member Firm of Deloitte & Touche Tohmatsu]

Report Of Independent Registered Public Accounting Firm

To the Shareholders of
Koorshevel Ltd

We have audited the accompanying balance sheets of Koorshevel ("the Company") as of December 31, 2004 and 2003 and the related consolidated statements of operations, shareholders' equity, and cash flows, for each of the three years, in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of operations and cash flows of the Company for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Israel.

As explained in Note 2(2), the financial statements for dates and reporting periods subsequent to December 31, 2003 are stated in reported amounts, in accordance with the accounting standards of the Israel Accounting Standards Board. The financial statements for dates and reporting periods ended up to the aforementioned date are stated in values that were adjusted to that date according to the changes in the general purchasing power of the Israeli currency, in accordance with opinions of the Institute of Certified Public Accountants in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP). Information relating to the nature and effect of such differences is presented in Note 8 to the financial statements.

/s/ Brightman Almagor & Co.
Brightman Almagor & Co.
Certified Public Accountants (Isr.)
A member firm of Deloitte Touche Tohmatsu
Tel Aviv, March 9, 2005

[Letterhead of Brightman Almagor & Co., a Member Firm of Deloitte & Touche Tohmatsu]

Report Of Independent Registered Public Accounting Firm

To the Shareholders of
Sheraton Moriah (Israel) Ltd.

We have audited the accompanying balance sheets of Sheraton Moriah (Israel) Ltd. (the "Company") as of December 31, 2004 and 2003, and the consolidated balance sheets of the Company and its subsidiaries as at such dates, and the related statements of operations, shareholders' equity, and cash flows, for each of the three years, in the period ended December 31, 2004. These financial statements are the responsibility of the Company's 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 whose assets constitute 2% of the total consolidated assets as of December 31, 2003, and whose revenues constitute 12% and 18% of the total consolidated revenues for the years ended December 31, 2003 and 2002 respectively. Furthermore, we did not audit the financial statements of an affiliate accounted for by use of the equity method. The Company's equity in that affiliate's net assets as of December 31, 2004 and 2003, amounts to NIS 4.7 million and NIS 5.6 million, respectively and its shares in losses constitutes NIS 0.9 million, NIS 1.1 million and NIS 2.2 million in that affiliate's net loss for the years ended December 31, 2004, 2003 and 2002, respectively. The financial statements of those consolidated subsidiaries and the affiliate which were prepared in accordance with Israeli GAAP, 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 affiliate, before conversion to generally accepted accounting principles in the United States of America, is based solely on the reports of the other auditors.

We conducted our audits in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the 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 of December 31, 2004 and 2003, and the results of operations and cash flows - of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Israel.

As explained in Note 2(1), the financial statements for dates and reporting periods subsequent to December 31, 2003 are stated in reported amounts, in accordance with the accounting standards of the Israel Accounting Standards Board. The financial statements for dates and reporting periods ended up to the aforementioned date are stated in values that were adjusted to that date according to the changes in the general purchasing power of the Israeli currency, in accordance with opinions of the Institute of Certified Public Accountants in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. The effect of the application of the latter on the consolidated financial position as of December 31, 2004 and on the consolidated results of operation for the year then ended is summarized in Note 28.

As described in Note 2 (15) to the financial statements the 2002 and 2003 annual financial statements have been restated due to an expense paid by a controlling party for the Company to a third party.

/s/ Brightman Almagor & Co.
Brightman Almagor & Co.
Certified Public Accountants (Isr.)
A member firm of Deloitte Touche Tohmatsu
Tel Aviv, March 9, 2005

[Letterhead of Kost, Forer Gabbay & Kasierer, a Member of Ernst & Young Global]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Venturers of the

Joint Venture – Sheraton City Tower

We have audited the balance sheets of the Joint Venture – Sheraton City Tower ("the Joint Venture") as of December 31, 2004 and 2003, and the related statements of operations, changes in venturers' deficiency and cash flows for the years then ended (not presented separately herein). These financial statements are the responsibility of the Joint Venturer's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Joint Venture's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Joint Venture as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles in Israel (which principles differ in certain respects from accounting principles generally accepted in the United States – see Note 18).

As described in Note 2A, the financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. The financial statements as of the dates and for the reported periods until the aforementioned date are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

/s/ Kost, Forer Gabbay & Kasierer

Tel-Aviv, Israel
March 2, 2005

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Financial Statements as at December 31, 2004

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[Letterhead of Somekh Chaikin, a Member Firm of KPMG International]

Auditors' Report to the Shareholders of Makhteshim-Agan Industries Ltd.

We have audited the accompanying balance sheets of Makhteshim-Agan Industries Ltd. (the Company) as at December 31, 2004 and 2003, and the consolidated balance sheets of the Company and its subsidiaries as at such dates, and the related statements of income, changes in shareholders' equity and cash flows – Company and consolidated – for each of the three years, the last of which ended December 31, 2004. These financial statements are the responsibility of the Company's Board of Directors and 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, whose assets constitute 5% and 4% of the total consolidated assets as at December 31, 2004 and 2003, respectively, and whose revenues constitute 4%, 6% and 1% of the total consolidated revenues for each of the three years last of which ended December 31, 2004, respectively. The financial statements of those subsidiaries were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to the amounts included for those companies, is based solely on the said reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Manner of Auditor's Performance), 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that 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 Company's Board of Directors and by its Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of other auditors, as mentioned above, the financial statements referred to above present fairly, all material respects, the financial position of the Company and the consolidated financial position of the Company and its subsidiaries, as at December 31, 2004 and 2003, and the results of the operations, the changes in the shareholders' equity and the cash flows – Company and consolidated – for each of the three years, the last of which ended December 31, 2004, in conformity with generally accepted accounting principles. Furthermore, these statements have, in our opinion, been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America (US GAAP). Information related to the nature and effect of such differences is presented in Note 34 of the financial statements.

As explained in Note 2(A), since the Company's functional currency is the U.S. dollar, the financial statements are prepared in U.S. dollars.

/s/ Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Isr.)

March 8, 2005, except for Note 34, as to which the date is July 13, 2005.

Consolidated Balance Sheets

	Note	As at December 31 2004 US$ thousands	2003 US$ thousands
Current assets			
Cash and cash equivalents		**40,477**	49,849
Short-term investments		**1,563**	1,100
Trade receivables	3	**369,209**	301,694
Other receivables	4	**77,219**	54,538
Inventories	6	**460,870**	360,993
		949,338	768,174
Long-term investments, loans and receivables	8	**22,070**	18,044
Fixed assets	9		
Cost		**824,544**	786,416
Less – accumulated depreciation		**388,805**	359,671
		435,739	426,745
Other assets and deferred charges	10		
Cost		**743,310**	612,275
Less – accumulated amortization		**215,890**	163,873
		527,420	448,402
		1,934,567	1,661,365

	Note	As at December 31 2004 US$ thousands	2003 US$ thousands
Current liabilities			
Credit from banks	11	**140,021**	142,817
Trade payables	12	**325,945**	243,070
Other payables	13	**192,405**	150,541
Proposed dividend		**11,200**	7,000
		669,571	543,428
Long-term liabilities			
Loans from banks	14	**93,023**	269,233
Convertible debentures	15	**150,000**	-
Other long-term liabilities	16	**9,337**	2,470
Deferred taxes, net	17	**54,354**	43,778
Employee severance benefits, net	18	**26,709**	24,774
		333,423	340,255
Minority interest		**18,756**	6,436
Commitments and contingent liabilities	19		
Convertible debentures	15	**38,322**	77,705
Shareholders' equity	21	**874,495**	693,541
		1,934,567	1,661,365

/s/ Danny Biran	/s/ Shlomo Yanai	/s/ Eli Assraf
Danny Biran	Shlomo Yanai	Eli Assraf
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: March 8, 2005, except for Note 34, as to which the date is July 13, 2005.

The notes and appendix to the financial statements are an integral part thereof.

Company Balance Sheets

	Note	As at December 31 2004 US$ thousands	2003 US$ thousands
Current assets			
Cash and cash equivalents		**2,649**	3,191
Short-term investments		**1,900**	5,454
Other receivables	4	**11,699**	12,945
Loans to investee companies	5	**30,959**	16,111
		47,207	37,701
Long-term investments, loans and receivables			
Investee companies	7	**1,008,999**	735,005
Bank deposits	8	**19,016**	29,101
Deferred taxes, net	17	**6,674**	1,095
		1,034,689	765,201
Office furniture and equipment, net		**601**	472
Deferred charges	10	**2,458**	1,618
		1,084,955	804,992
Current liabilities			
Credit from banks	11	**-**	4,500
Other payables	13	**6,760**	6,373
Proposed dividend		**11,200**	7,000
		17,960	17,873
Long-term liabilities			
Loans from banks	14	**-**	12,375
Convertible debentures	15	**150,000**	-
Employee severance benefits, net	18	**4,591**	3,911
		154,591	16,286
Commitments and contingent liabilities	19		
Convertible debentures	15	**37,909**	77,292
Shareholders' equity	21	**874,495**	693,541
		1,084,955	804,992

Danny Biran	Shlomo Yanai	Eli Assraf
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: March 8, 2005, except for Note 34, as to which the date is July 13, 2005.

The notes and appendix to the financial statements are an integral part thereof.

Consolidated Statements of Income

	Note	For the year ended December 31		
		2004	**2003**	**2002**
	Note	**US$ thousands**	**US$ thousands**	**US$ thousands**
Revenues	23	**1,539,702**	1,177,255	890,863
Cost of sales	24	**943,908**	730,305	564,763
Gross profit		**595,794**	446,950	326,100
Expenses				
Research and development, net	25	**19,480**	16,820	15,175
Selling and marketing	26	**220,212**	163,836	128,986
General and administrative	27	**66,915**	53,899	42,803
		306,607	234,555	186,964
Operating income		**289,187**	212,395	139,136
Financing expenses, net	28	**27,571**	37,956	34,406
Income before other expenses, net		**261,616**	174,439	104,730
Other expenses, net	29	**42,735**	38,245	31,770
Income before taxes on income		**218,881**	136,194	72,960
Taxes on income	17	**52,334**	32,618	12,458
Income after taxes on income		**166,547**	103,576	60,502
Minority interest in income of subsidiaries, net		**(1,020)**	(802)	(424)
Net income		**165,527**	102,774	60,078
		US$	**US$**	**US$**
Earnings per share	31			
Basic earnings per NIS 1 par value of shares		**0.39**	0.26	0.17
Fully diluted earnings per NIS 1 par value of shares		**0.37**	0.25	0.15

The notes and appendix to the financial statements are an integral part thereof.

Company Statements of Income

	Note	For the year ended December 31		
		2004	2003	2002
		US$ thousands	US$ thousands	US$ thousands
Income				
Company's equity in income of investee companies, net		**163,406**	104,015	59,682
Management fees from investee companies		**13,559**	10,007	9,227
		176,965	114,022	68,909
Expenses				
Research and development, net		**-**	401	233
General and administrative	27	**15,371**	13,927	8,992
		15,371	14,328	9,225
Operating income		**161,594**	99,694	59,684
Financing income, net	28	**(5,036)**	(598)	(1,726)
Income before other expenses (income), net		**166,630**	100,292	61,410
Other expenses (income), net		**1,850**	(4)	1,118
Income before taxes on income (tax benefit)		**164,780**	100,296	60,292
Taxes on income (tax benefit)	17	**(747)**	(2,478)	214
Net income		**165,527**	102,774	60,078
		US$	US$	US$
Earnings per share	31			
Basic earnings per NIS 1 par value of shares		**0.39**	0.2 6	0.17
Fully diluted earnings per NIS 1 par value of shares		**0.37**	0.25	0.15

The notes and appendix to the financial statements are an integral part thereof.

Statements of Changes in Shareholders' Equity

	Share capital	Premium on shares	Receipts from issuance of options	Capital reserves	Proposed dividend subsequent to balance sheet date	Retained earnings	Company shares held by subsidiary	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Balance as of December 31, 2001	101,757	357,090	4,046	(3,978)	-	115,862	(18,004)	556,773
Employee options exercised	47	234	-	-	-	-	-	281
Adjustments deriving from translation of financial statements of investee companies	-	-	-	(3,700)	-	-	-	(3,700)
Realization of Company shares held by a subsidiary (see Note 21C)	-	-	-	-	-	-	2,576	2,576
Capital reserve from acquisition of convertible debenture by a subsidiary	-	-	-	399	-	-	-	399
Dividend	-	-	-	-	-	(8,500)	-	(8,500)
Proposed dividend subsequent to the balance sheet date	-	-	-	-	9,500	(9,500)	-	-
Net income for the year ended December 31, 2002	-	-	-	-	-	60,078	-	60,078
Balance as of December 31, 2002	101,804	357,324	4,046	(7,279)	9,500	157,940	(15,428)	607,907
Employee options exercised	581	(581)	-	-	-	-	-	-
Conversion of convertible debentures into shares	1,270	11,331	-	-	-	-	-	12,601
Options exercised	138	1,469	(134)	-	-	-	-	1,473
Adjustments deriving from translation of financial statements of investee companies	-	-	-	1,886	-	-	-	1,886
Dividend	-	-	-	-	(9,500)	(16,600)	-	(26,100)
Proposed dividend	-	-	-	-	-	(7,000)	-	(7,000)
Proposed dividend subsequent to the balance sheet date	-	-	-	-	7,200	(7,200)	-	-
Net income for the year ended December 31, 2003	-	-	-	-	-	102,774	-	102,774
Balance as of December 31, 2003	103,793	369,543	3,912	(5,393)	7,200	229,914	(15,428)	693,541
Employee options exercised	**578**	**(578)**	-	-	-	-	-	-
Conversion of convertible debentures into shares	**3,974**	**35,581**	-	-	-	-	-	**39,555**
Options exercised	**913**	**9,637**	**(903)**	-	-	-	-	**9,647**
Adjustments deriving from translation of financial statements of investee companies	-	-	-	**2,825**	-	-	-	**2,825**
Realization of Company shares held by a subsidiary (see Note 21C)	-	**3,304**	-	-	-	-	**4,196**	**7,500**
Dividend	-	-	-	-	**(7,200)**	**(25,700)**	-	**(32,900)**
Proposed dividend	-	-	-	-	-	**(11,200)**	-	**(11,200)**
Proposed dividend subsequent to the balance sheet date	-	-	-	-	**12,700**	**(12,700)**	-	-
Net income for the year ended December 31, 2004	-	-	-	-	-	**165,527**	-	**165,527**
Balance as of December 31, 2004	**109,258**	**417,487**	**3,009**	***(2,568)**	**12,700**	**345,841**	**(11,232)**	**874,495**

Composition of capital reserves: *	**US$ thousands**
Capital reserve in the framework of the arrangement plan (Note 1B(2))	257
Adjustments deriving from translation of financial statements of investees	(1,425)
Adjustment of commitment to purchase Company shares	(1,799)
Capital reserve from acquisition of convertible debentures by a subsidiary	399
	(2,568)

The notes and appendix to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Cash flows from operating activities			
Net income	**165,527**	102,774	60,078
Adjustments to reconcile net income to net cash flows from operating activities (see A. below)	**50,126**	146,466	48,152
Net cash provided by operating activities	**215,653**	249,240	108,230
Cash flows from investing activities			
Acquisition of fixed assets	**(38,823)**	(33,606)	(42,612)
Investment grant received	**686**	1,937	1,282
Additions to other assets and deferred charges, net	**(33,749)**	(20,463)	(31,565)
Purchase of products and intangible assets	**-**	(50,876)	(142,054)
Short-term investments, net	**(463)**	(241)	767
Investments in newly consolidated companies (see B. below)	**(72,152)**	(3,282)	(19,955)
Proceeds from disposal of fixed and other assets	**574**	2,049	900
Proceeds from sale of long-term investments	**2,819**	406	1,883
Other long-term investments	**(828)**	(2,963)	(2,036)
Acquisition of minority interest in subsidiaries	**(1,056)**	-	(603)
Net cash used in investing activities	**(142,992)**	(107,039)	(233,993)
Cash flows from financing activities			
Receipt of long-term loans from banks	**24,700**	97,693	186,566
Repayment of long-term loans and liabilities from banks and others	**(227,851)**	(148,251)	(109,948)
Issuance of convertible debentures less issuance expenses	**147,450**	-	29,309
Realization (acquisition) of Company debentures by a subsidiary	**-**	4,301	(3,257)
Increase (decrease) in short-term credit from banks and others, net	**4,222**	(84,801)	33,181
Proceeds from options exercised	**9,647**	1,473	-
Proceeds from employee options exercised	**-**	-	281
Dividend to shareholders	**(39,900)**	(26,100)	(11,500)
Dividend to minority shareholders in subsidiaries	**(301)**	(241)	(549)
Net cash (used in) provided by financing activities	**(82,033)**	(155,926)	124,083
Translation differences in respect of cash in autonomous units	**-**	-	(272)
Decrease in cash and cash equivalents	**(9,372)**	(13,725)	(1,952)
Cash and cash equivalents at beginning of the year	**49,849**	63,574	65,526
Cash and cash equivalents at end of the year	**40,477**	49,849	63,574

The notes and appendix to the financial statements are an integral part thereof.

Consolidated Statements of Cash Flows (cont'd)

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
A. Adjustments to reconcile net income to net cash flows from operating activities:			
Revenues and expenses not affecting operating cash flows			
Depreciation and amortization	**82,624**	75,673	58,105
Adjustment of long-term liabilities to banks and others	**1,791**	2,537	3,765
Minority interest in income of subsidiaries, net	**998**	802	424
Increase in employee severance benefits, net	**1,973**	4,358	1,058
Deferred taxes, net	**(163)**	3,233	6,287
Amortization of discount on convertible debentures	**916**	978	1,272
Capital loss on disposal of fixed and other assets, net	**511**	858	331
Provision for loss with respect to options granted to employees of subsidiaries	**2,090**	330	-
Gain on issuance of a subsidiary to a third party	**(926)**	-	-
Changes in operating assets and liabilities			
Decrease (increase) in trade and other receivables	**(53,236)**	(48,358)	59,069
Increase in inventories	**(69,345)**	(15,323)	(38,398)
Increase (decrease) in trade and other payables	**82,893**	121,378	(43,761)
	50,126	146,466	48,152
B. Investments in newly consolidated companies			
Working capital (excluding cash and cash equivalents)	**(6,485)**	(2,777)	1,355
Fixed assets, net	**(2,258)**	(506)	(1,625)
Other assets, net	**(63,081)**	-	(6,168)
Goodwill created on acquisition	**(41,851)**	(43)	(19,714)
Long-term liabilities	**33,896**	44	2,213
Contingent liability	**-**	-	3,984
Exercise of Company shares held by a subsidiary	**7,500**	-	-
Minority interest	**6,398**	-	-
	(65,881)	(3,282)	(19,955)
Repayment of liability in respect of investee company previously acquired	**(6,271)**	-	-
	(72,152)	(3,282)	(19,955)
C. Non-cash activities			
Acquisition of other assets on supplier credit	**6,287**	1,516	52,913
Acquisition of fixed assets on supplier credit	**-**	3,904	2,204

Company Statements of Cash Flows

	For the year ended December 31		
	2004	2003	2002
	US$ thousands	US$ thousands	US$ thousands
Cash flows from operating activities			
Net income	**165,527**	102,774	60,078
Adjustments to reconcile net income to cash flows from operating activities (see A. below)	**(130,946)**	(67,443)	(49,962)
Net cash provided by operating activities	**34,581**	35,331	10,116
Cash flows from investing activities			
Investment in investee companies	**(3,938)**	(5,501)	(931)
Long-term loans to investee companies	**(135,582)**	(326)	(49,704)
Repayment of long-term loans to investee companies	**-**	21,623	-
Short-term credit to investee companies, net	**(9,056)**	2,850	(5,350)
Acquisition of fixed assets	**(431)**	(221)	(279)
Investment in short-term bank deposits, net	**3,554**	3,687	(9,141)
Realization of long-term bank deposits	**10,000**	25,000	-
Proceeds from sales of fixed assets	**8**	10	-
Net cash (used in) provided by investing activities	**(135,445)**	47,122	(65,405)
Cash flows from financing activities			
Issuance of convertible debentures less issuance expenses	**147,450**	-	29,309
Proceeds from options exercised	**9,647**	1,473	-
Dividend to shareholders	**(39,900)**	(26,100)	(11,500)
Proceeds from employee options exercised	**-**	-	281
Receipt of long-term loans from banks	**-**	-	22,500
Repayment of long-term loans from banks	**(16,875)**	(4,500)	(46,725)
Receipt of long-term loan from investee company	**-**	-	11,500
Increase (decrease) in short-term credit from banks, net	**-**	(50,684)	50,084
Net cash (used in) provided by financing activities	**100,322**	(79,811)	55,449
Increase (decrease) in cash and cash equivalents	**(542)**	2,642	160
Cash and cash equivalents at beginning of the year	**3,191**	549	389
Cash and cash equivalents at end of the year	**2,649**	3,191	549

The notes and appendix to the financial statements are an integral part thereof.

Company Statements of Cash Flows (cont'd)

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
A. Adjustments to reconcile net income to net cash flows from operating activities			
Revenues and expenses not affecting operating cash flows:			
Depreciation and amortization	**1,235**	741	717
Capital loss (gain) on disposal of fixed assets	**25**	(4)	2
Company's equity in undistributed earnings of investee companies, net	**(122,931)**	(74,153)	(49,401)
Increase in employee severance benefits, net	**680**	1,660	188
Amortization of discount on convertible debentures	**916**	978	1,272
Adjustment of long-term investments	**(5,333)**	731	3,907
Adjustment of long-term bank loans	**-**	-	(3,304)
Deferred taxes, net	**(749)**	(2,507)	214
Changes in operating assets and liabilities:			
Decrease (increase) in other receivables	**(5,143)**	2,362	(3,556)
Increase (decrease) in other payables	**354**	2,749	(1)
	(130,946)	(67,443)	(49,962)

The notes and appendix to the financial statements are an integral part thereof.

Note 1 - General

A. Definitions

(1)	The Company	–	Makhteshim-Agan Industries Ltd.
(2)	The Group	–	Makhteshim-Agan Industries Ltd. and its investees.
(3)	Subsidiaries	–	Companies, including partnerships, whose financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
(4)	Proportionately consolidated companies	–	Companies, including partnerships, whose financial statements are consolidated, directly or indirectly, with those of the Company by the proportionate consolidation method.
(5)	Investees	–	Subsidiaries and proportionately consolidated companies.
(6)	Related parties	–	As defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.
(7)	Interested parties	–	As defined in Paragraph (1) of the definition of an "interested party" in a corporation, in Section 1 of the Securities Law, 1968.
(8)	Controlling shareholders	–	As defined in the Securities Regulations (Financial Statement Presentation of Transactions between a Company and a Controlling Shareholder Therein), 1996.
(9)	CPI	–	The Consumer Price Index as published by the Central Bureau of Statistics.
(10)	Dollar	–	The US dollar.

B. Description of the Company and its activity

1. The Company is engaged through its local and foreign investee companies primarily in the manufacture and marketing of pesticides, intermediate materials for other industries and synthetic fragrances, mainly for export. The Company is held by Koor Industries Ltd. (Koor). As at December 31, 2004, Koor holds 38.6% of the Company's shares whereas on December 31, 2003, Koor held 48.6% of the Company's shares. In addition, at that time Koor had a voting agreement, that was not of a temporary nature, with two other shareholders who hold together 3.82% of the Company's shares. In July 2004, the voting agreements was cancelled.

   The Company was established on December 8, 1997 for the purpose of executing a plan for implementing changes in the holdings in Makhteshim Chemical Works Ltd. (Makhteshim) and Agan Chemical Industries Ltd. (Agan), as described below.

Note 1 - General (cont'd)

B. Description of the Company and its activity (cont'd)

2. On April 26, 1998, the shareholders of Makhteshim and of Agan approved an exchange arrangement, the substance of which was a change in the structure of holdings in the Makhteshim-Agan Group. Prior to the implementation of the arrangement, Makhteshim was a 67% subsidiary of Koor, Makhteshim held a 46.6% interest in Agan and Koor held a 5% direct interest in Agan.

On May 4, 1998, the Court approved the arrangement, which was consummated pursuant to the provisions of Section 233 of the Companies Ordinance (New Version). On May 7, 1998, the shares of Makhteshim and of Agan were delisted from the Tel-Aviv Stock Exchange and on May 11, 1998, trading commenced in the shares of the Company.

On May 10, 1998, the following actions were taken pursuant to the approved exchange arrangement:

– The Company issued shares to all of the shareholders of Makhteshim and of Agan (except in respect of the shares of Agan held by Makhteshim) in exchange for the transfer to the Company of the shares of Makhteshim and Agan held by them.

– Pursuant to the exchange ratio that was determined (based on the opinion of economic appraisers), the shareholders of Makhteshim received 2.446 shares of the Company for each share of Makhteshim, and the shareholders of Agan (excluding Makhteshim) received 10.247 shares of the Company for each share of Agan.

Following the implementation of the above-mentioned transactions, the Company fully owns and controls Makhteshim and Agan.

Note 2 - Reporting Principles and Accounting Policy

A. Financial statements in US dollars

General:

The Company and its Israeli subsidiaries maintain their current accounting records in nominal shekels and dollars using a multi–currency system. Since most of the Group’s revenues are received in dollar and the principal raw materials and fixed assets are purchased in dollar. The dollar is the principal currency of the economic environment in which the Group operates ("the functional currency"). Accordingly, the dollar is the measurement and reporting currency in these financial statements. It should not be construed that the translated amounts actually represent or can be converted into dollars, unless otherwise indicated in these statements.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

A. Financial statements in US dollars (cont'd)

1. Balance sheet:

   a) Non-monetary items (items, the stated amounts of which reflect their historical value upon acquisition or creation) that were acquired in a currency other than the dollar, were translated according to the exchange rate of the dollar on their date of acquisition or creation. The following items were treated as non-monetary items: fixed assets and the related accumulated depreciation, inventory, other assets, deferred expenses and the related accumulated amortization, and shareholders' equity items which derive from funds invested by shareholders.

      The amounts of the non-monetary assets do not necessarily represent their realizable value or current economic value, rather only the original dollar cost thereof in nominal values.

   b) The net asset value of investments in investees and the minority interest in consolidated subsidiaries are determined on the basis of the dollar translated financial statements of those companies.

   c) Monetary items (items, the amounts of which as stated in the balance sheet reflect current or realizable values, as at the balance sheet date) were translated into dollars at the exchange rate at the balance sheet date.

2. Statement of income:

   a) The components of the statement of income reflecting transactions carried out during the year – sales, purchases, labor costs, etc. – in a currency other than the dollar, were translated according to the exchange rate of the dollar on the date of the cash flow. The erosion in monetary balances is included in the specific expense or income items to which they relate.

   b) The components of the statement of income relating to non–monetary balance sheet items have been translated according to the same exchange rate used for translating the related balance sheet items (mainly: changes in inventory, depreciation and amortization, capital gain, etc.).

   c) Company equity in operating results of investees is determined on the basis of the financial statements of those companies.

   d) Taxes on income:

      Current taxes are composed of payments on account during the year, plus amounts due as at the balance sheet date (or net of amounts refundable at the balance sheet date). The payments on account were translated according to the exchange rate of the dollar on the date of each payment, while the amounts due or refundable are included without adjustment. Therefore, current taxes also include the expense or income resulting from the erosion of the payments on account, from the payment date until the balance sheet date. Deferred taxes – see Note 2R and Note 17G.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

B. Proposed dividend subsequent to the Balance Sheet Date

Pursuant to Accounting Standard No. 7, "Events Occurring Subsequent to the Balance Sheet Date", a liability which relates to a dividend proposed or declared subsequent to the balance sheet date, is reflected in the financial statements only in the period declared. In addition, separate expression of the amount of the dividend intended for distribution is provided as part of the statement of changes in shareholders' equity, as stated, against reduction of the retained earnings' balance.

C. Foreign investee companies

As of January 1, 2004, the Company applies Accounting Standard No. 13, "Effect of changes in Exchange Rates of Foreign Currency". The Standard discusses the translation of transactions in foreign currency and the translation of financial statements of foreign operations for purposes of including them 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, on the basis of the indications described in the standard and the use of discretion, and it provides the method for translating the financial statements of autonomous foreign investees.

The financial statements of foreign investees that are integral to the Group's operations based on the criteria provided in Accounting Standard No. 13, are translated into dollars as follows: non-monetary items in the balance sheet are translated at the historical exchange rates as at the transaction date whereas monetary balance sheet items are translated at the exchange rate in effect on the balance sheet date. Items in the statement of income are translated at average exchange rates, except for revenues and expenses relating to non-monetary items that were translated based on the historical exchange rates according to which the corresponding non-monetary items were translated. Translation differences are recorded in the statement of income.

The financial statements of foreign investees that operate as "autonomous entities" based on the criteria provided in Accounting Standard No. 13, are translated into dollars as follows: monetary and non-monetary balance sheet items are translated based on the closing exchange rate. Items in the statement of income are translated at the exchange rate on the transaction date. Translation differences are recorded in the statement of income in a separate category in the shareholders' equity section ("adjustments deriving from translation of financial statements of investee companies") up to the time of realization of the net investment.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

D. Consolidated financial statements

(1) The financial statements of the Company are consolidated with the statements of those companies that it controls. Companies, which are under joint control, are consolidated by the proportionate consolidation method.

(2) A list of companies whose financial statements are included in the consolidated statements as well as the rate of control and ownership thereof, is presented in the appendix to the financial statements.

(3) For purposes of the consolidation, the amounts appearing in the financial statements of the subsidiaries were taken into account, after the adjustments required by the application of the uniform accounting policies used by the Group.

(4) The excess of the cost of investments in subsidiaries over the fair value of identified assets, less the identified liabilities (net of taxes in respect of temporary differences) at the date of acquisition, is recorded as goodwill.

The goodwill is presented in the consolidated balance sheet in the category “other assets and deferred charges” and is amortized in the “other expenses” item (regarding the amortization period, see Section L., below).

(5) The consolidated financial statements include the share of assets, liabilities, income and expenses of proportionately consolidated subsidiaries, based on the percentage interest held in these companies.

(6) Material intercompany balances and transactions, including profits on intercompany sales which have not yet been realized outside the Group, are eliminated in consolidation.

E. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash equivalents

Cash equivalents include short-term bank deposits with an original maturity not exceeding three months.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

G. Short-term investments

Marketable securities held as a short-term investment are stated at their market value as at balance sheet date. Changes in the value of the marketable securities are fully recognized on a current basis.

H. Allowance for doubtful accounts

The financial statements include an allowance for specific doubtful accounts which fairly reflects, in management's estimation, the loss expected from receivables the collection of which is doubtful. Management determines the allowance, based, in part, on an evaluation of credit risk using available information regarding the financial position of the debtors, the extent of their activities and evaluation of collateral received from them. The financial statements include specific allowances for doubtful accounts and, as mentioned in section I below, with respect to trade receivables included in the framework of a subordinated capital note received as part of a securitization transaction.

I. Sale of financial assets

The sale of financial assets is recognized as a sale when control over the asset is transferred in full to an independent third party, and the full amount of the risks and rewards embodied by the asset are transferred to an independent third party.

J. Inventories

Inventories are valued at the lower of cost or market, cost being determined as follows:

- Raw materials, packing materials, purchased products, spare parts and maintenance materials on the "moving average" basis.
- Finished products and work in progress on the basis of average production cost including materials, labor and manufacturing expenses.

K. Investments in investee companies

(1) Investments in investee companies are stated in the Company's balance sheet according to the equity method. In determining the net asset value of the investments in these companies, the amounts taken into account are based on the financial statements of these companies, after making the adjustments thereto required by the application of generally accepted accounting principles.

(2) Regarding goodwill amortization – see Note 2M.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

L. Fixed assets

(1) The fixed assets are presented at cost.

(2) The cost of assets includes financing expenses related to the financing of their construction during the pre-operation period. The financing expenses were capitalized as follows:

A. Where the assets under construction are financed by specific credit – the financing expenses relating to such credit.

B. Where the financing is not made by specific credit – by using a rate representing the weighted average cost rate of the credit sources, the cost of which was not specifically capitalized.

(3) The cost of the self-constructed assets includes materials and labor costs during the pre-operation period.

(4) The cost of assets with respect to which an investment grant was received is presented after deduction of the investment grant received with respect thereto. The investment grant is amortized to the statement of income based on the rate of depreciation of the assets in respect of which it was received.

(5) Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Annual rates of depreciation are:

	%	
Leasehold rights and buildings	2 – 4	
Plant and equipment	4.5	
Motor vehicles	15 – 20	
Office furniture and equipment	6 – 15	(mainly 7%)
Computer and auxiliary equipment	20 – 33	

M. Other assets and deferred charges

Other assets and deferred charges are amortized by the straight-line method over the expected benefit period as follows:

- Product registration and acquisition of know–how – mainly eight years.
- Goodwill arising on the acquisition of subsidiaries – ten or twenty years (mainly twenty years).
- Intangible assets in purchase of products and companies – mainly twenty years.
- Marketing rights – five years to ten years.
- Debenture issuance expenses – six years.
- Non-competition and confidentiality agreement – five years.

The amortization periods are re-examined from time to time in accordance with the estimated expected benefit period of the assets.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

N. Debentures convertible into shares

Debentures convertible into shares are included in the balance sheet based on the probability of their conversion, as provided in Opinion 53 of the Institute of Certified Public Accountants in Israel. Debentures, the conversion of which is not probable, are included as a liability at their liability amount. Debentures, the conversion of which is probable, are stated between the items “long-term liabilities” and “shareholders’ equity”, in accordance with the higher of the liability or capital value.

Convertible debentures issued by the Company and held by a subsidiary, are included net of the liability value of the debentures issued. The difference between the acquisition cost and the liability value which was deducted, is recorded in a capital reserve in the shareholders' equity category.

O. Company shares held by subsidiary

Company shares held by a subsidiary are stated at cost, as a deduction from the Company’s shareholders’ equity.

P. Revenue recognition

Revenues from sales of products are recognized upon shipment to the customer along with transfer of the main risks involved with ownership of the products sold.

Q. Research and development costs

Research and development costs, net of grants and participations, are charged to the statement of income as incurred. The net research and development expenses are presented separately in the statement of income after gross profit.

R. Deferred taxes

The Group companies create deferred taxes in respect of temporary differences. The temporary differences are differences in the value of assets and liabilities for tax purposes and for financial reporting purposes. Allocation of the taxes, as stated, is executed with respect to the differences applying to assets, the amortization of which is deductible for tax purposes.

The deferred tax balances (asset or liability) are calculated according to the liability approach, i.e., the tax rates expected to be in force when the deferred tax liability is utilized, or when the deferred tax asset is realized, as they are known proximate to the date of approval of the financial statements.

In calculation of the deferred taxes, no account was taken of the taxes, which 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.

The Group may be subject to additional tax in a case of distribution of dividends between the Group companies. This additional tax was not provided for in the financial statements in cases where Group policy is not to distribute a dividend which involves additional tax to the Group.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

S. Earnings per share

The earnings per share data is calculated in accordance with opinion No. 55 of the Institute of Certified Public Accountants in Israel, retroactively adjusted for the bonus element in the issuance of rights, and taking into consideration the likelihood of the exercise of option warrants and convertible debentures issued by the Company.

T. Derivative financial instruments

The results of derivative financial instruments held as hedge for existing assets and liabilities are recognized concurrently with the results of the hedged assets and liabilities.

The results of derivative financial instruments held as a hedge for firm commitments are deferred, and are recognized in the same period in which the results from the hedged transactions are recognized.

Derivative financial instruments, which are not earmarked for hedging purposes, are presented in the balance sheet based on their fair value. Changes in fair value are recorded in the statement of income in the period in which they occur.

The fair value of derivative financial instruments is determined based on their market value, and in the absence of such a price, fair value is determined based on a valuation model.

U. Environmental costs

The ongoing cost of maintenance and operation of facilities for the prevention of environmental pollution and projected provisions for environment rehabilitation costs stemming from current or past activities, are charged to expense as incurred. The cost of constructing facilities to prevent pollution, which increase the life expectancy of a facility or its efficiency, or decrease or prevent pollution, are charged to the cost of fixed assets and are depreciated according to the usual depreciation rates used by the Group.

V. Impairment in value of assets

The Company applies Accounting Standard No. 15 – Impairment in Value of Assets (hereinafter – "Standard"). The Standard provides procedures which a company must apply in order to ensure that its assets in the consolidated balance sheet (to which the Standard applies), are not presented at an amount which is in excess of their recoverable value, which is the higher of the net selling price or the realization value (the present value of the estimated future cash flows expected to be derived from use and disposal of the asset).

The Standard applies to all the assets in the consolidated balance sheet, except for tax assets and monetary assets. In addition, the Standard provides rules for presentation and disclosure with respect to assets whose value has declined. Where the value of an asset in the balance sheet is greater than its recoverable value, the Company recognizes a loss from impairment in value in an amount equal to the difference between the book value of the asset and its recoverable value. The loss recognized, as stated, will be eliminated only if there have been changes in the estimates used in determining the asset's recoverable value from the date on which the last loss from impairment in value was recognized.

W. Balances in foreign currency and linked balances

Balances in or linked to foreign currency are included in the financial statements at the representative exchange rates on the balance sheet date. Balances linked to the Consumer Price Index are included on the basis of the index relevant to each linked asset or liability.

Note 2 - Reporting Principles and Accounting Policy (cont'd)

W. Balances in foreign currency and linked balances (cont'd)

Data regarding the representative exchange rate of the US dollar and the Consumer Price Index are as follows:

	Consumer Price Index (Points)	Exchange rate of the US dollar against the NIS	Exchange rate of the US dollar against the Brazilian real	Exchange rate of the US dollar against the Euro
As at				
December 31, 2004	**107.44**	**4.308**	**2.654**	**0.733**
December 31, 2003	106.16	4.379	2.889	0.791
Changes during the year:				
2004	**1.21%**	**(1.62%)**	**(8.13%)**	**(7.33%)**
2003	(1.9%)	(7.5%)	(18.2%)	(16.9%)
2002	6.5%	7.3%	52.3%	(15.9%)

X. Disclosure of the impact of new accounting standards in the period prior to their application

In July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19, “Taxes on Income”. The Standard provides that a liability for deferred taxes is to be recorded for all temporary differences subject to tax, except for a limited number of exceptions. In addition, a deferred tax asset is to be recorded for all temporary differences that may be deducted, losses for tax purposes and tax benefits not yet utilized, if it is anticipated that there will be taxable income against which they can be offset, except for a limited number of exceptions. The new Standard applies to financial statements for periods beginning on January 1, 2005. The Standard provides that it is to be implemented by means of a cumulative effect of a change in accounting method. First time application of the said Standard will have a net non-recurring impact, as at January 1, 2005, of increasing the net income by approximately US$ 11.6 million (which mainly derives from recording deferred taxes in respect of unrealized profits which are anticipated to be realized in the near future).

Note 3 - Trade Receivables

Consolidated

Composition:

	December 31	
	2004	2003
	US$ thousands	US$ thousands
Open accounts –		
Foreign	**312,661**	242,292
Domestic (Israel)	**14,812**	10,710
Checks receivable	**5,796**	8,868
Subordinated capital note and receivables related to sale of trade receivables in a securitization transaction (1)	**60,586**	57,203
	393,855	319,073
Net of allowance for doubtful debts	**24,646**	17,379
	369,209	301,694

Note 3 - Trade Receivables (cont'd)

(1) Sale of trade receivables in a securitization transaction:

	December 31	
	2004	**2003**
	US$ thousands	**US$ thousands**
Trade receivables included in the securitization transaction as at the balance sheet date	**202,832**	182,529
Less – proceeds in respect of such receivables, net (*)	**141,654**	115,769
Subordinated capital note	**61,178**	66,760
Trade receivables which were collected and the proceeds in respect thereof were paid subsequent to the balance sheet date, net	**(592)**	(9,557)
Subordinated capital note and receivables related to sale of trade receivables in a securitization transaction	**60,586**	57,203

(*) As at the balance sheet date cash proceeds in the amount of US$ 142.2 million were received in respect of the sale of trade receivables in a securitization transaction (December 31, 2003 – approximately US$ 125.3 million).

In October 2001, the Company and certain subsidiaries signed an agreement according to which those companies entered into a securitization transaction, under which such companies sold all their trade receivables to foreign companies, which were incorporated for this purpose and which are not owned or controlled by the Makhteshim Agan Industries Group (hereinafter – "the Target Companies"). The purchase of the debts by the purchasing companies was financed by Kitty Hawk Funding Corp., a US corporation of the Bank of America Group.

On September 28, 2004, the Company and subsidiaries signed an agreement with Bank of America to end the undertaking in the securitization transaction. On the same date, the Company and certain subsidiaries (hereinafter – "the Companies") entered into a new agreement with Rabobank International for sale of customer receivables in the framework of a securitization transaction, this being in place of the prior agreement with Bank of America. The new agreement is similar in principle to the prior agreement with certain changes including, among others, that in the new agreement additional Company subsidiaries are included in the transaction.
Pursuant to the new securitization agreement, the Companies will sell their trade receivables to a foreign company which was set up for this purpose and which is not owned or controlled by the Makhteshim Agan Industries Group (hereinafter – "the Acquiring Company").
Acquisition of the trade receivables by the Acquiring Company will be financed by a U.S. company, Erasmus Capital Corporation, of the Rabobank International Group. At the time of transition from the prior agreement to the new agreement the Acquiring Company purchased the trade receivables that remained in the ownership of the Target Companies.
Trade receivables included in the securitization transaction are those who stand in compliance with a number of criteria, as determined in the agreement.

The maximum expected volume of the financial means available to the Acquiring Company for the purpose of purchasing the trade receivables of the consolidated subsidiaries, is US$ 250 million (as opposed to US$ 150 million in the former securitization agreement) on a current basis, such that the amounts to be collected from customers whose debts were sold, will serve to purchase new trade receivables.

Note 3 - Trade Receivables (cont'd)

(1) Sale of trade receivables in a securitization transaction: (cont'd)

The period in which the Companies will sell their trade receivables to the Acquiring Company is one year from the date of the closing of the transaction. The period may be extended, with the consent of both parties, for additional one-year periods, up to a maximum of 4 extensions.

The price at which the trade receivables will be sold is the amount of the debt being sold less an amount calculated on the basis of the period anticipated to pass between the date the debt was sold and the repayment date.

On the date of purchasing the debt, the acquiring company will pay in cash the major part of the debt price. The balance of the debt price will be embodied in a subordinated capital note to be paid after the debt is collected. The rate of the cash payment will vary in accordance with the composition of the client portfolio and its performance.

The Company shall bear in full losses sustained by acquiring companies due to the non-payment of the trade receivables included in the securitization transaction, up to the amount of the total outstanding balance of the debt included in the subordinated capital note.

The acquiring company will not have a right of recourse to the Companies with respect to the amounts paid in cash, except in the case of debts in respect of which a commercial dispute arises between the Companies and their customers, namely, a dispute arising from an alleged failure to comply with an obligation of the seller in the supply agreement for the product, such as: failure to supply the correct product, defect in the product, non-compliance with the supply date, etc.

The Companies will handle for the acquiring company the collection of the sold trade receivables included as part of the securitization transaction.

The main principle of the accounting treatment of the sale of trade receivables in a securitization transaction is the recognition of the sale of only that part of the debt where the risk and control thereof has been finally and absolutely transferred to the buyer. Accordingly, trade receivables sold were deleted where the consideration in respect thereof had been received in cash and/or by a non-deferred liability. With respect of that part of the trade receivables included in the securitization transaction, which was not recognized as a sale, a subordinated capital note receivable was recorded in the amount of the difference between the amount of trade receivables included in the transaction and the amounts of consideration received, as above, and receivables were recorded in respect of the debts sold where the consideration in respect thereof was received subsequent to the balance sheet date.

The loss on sale of the trade receivables is recognized at the date of sale and is reflected in the item “other expenses”.

As part of the agreement, the Company committed to maintain certain financial ratios, mainly, debt to equity and profitability ratios – see Note 20C.

Note 4 - Other Receivables

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Claims from the government in respect of participations and tax refunds	**28,277**	15,410	**-**	-
Advance tax payments, net of provisions	**11,071**	7,895	**-**	-
Employees (1)	**1,376**	1,259	**6**	49
Deferred taxes (Note 17G)	**17,037**	10,256	**325**	5,155
Current maturities of long-term receivables	**420**	380	**-**	-
Prepaid expenses and accrued income	**10,372**	9,819	**168**	741
Dividend receivable	**-**	-	**11,200**	7,000
Other	**8,666**	9,519	**-**	-
	77,219	54,538	**11,699**	12,945
(1) Includes a non-linked bank deposit designated for the purpose of granting loans to employees and bearing annual interest at the rate of 5%	**417**	566	**-**	-

Note 5 - Loans to Investee Companies

Company

	December 31	
	2004	2003
	US$ thousands	US$ thousands
Current maturities of long-term loans	**-**	4,500
Short-term loans (1)	**16,056**	2,500
Current accounts (2)	**14,903**	9,111
	30,959	16,111

(1) The loan is a dollar loan and bears interest of 1.8% - 2.4%.

(2) The accounts are mainly linked to the US dollar and are non-interest bearing.

Note 6 - Inventories

Consolidated

	December 31	
	2004	**2003**
	US$ thousands	**US$ thousands**
Finished products	**263,579**	225,678
Work in progress	**29,117**	23,772
Raw materials	**115,046**	76,100
Packing materials	**4,863**	3,078
Spare parts and maintenance materials	**12,820**	13,739
	425,425	342,367
Purchased products	**35,445**	18,626
	460,870	360,993

Note 7 - Investments in Investee Companies

Company

A. Composition

	December 31	
	2004	**2003**
	US$ thousands	**US$ thousands**
Subsidiaries –		
Cost of shares	**424,865**	417,623
Company's equity in retained earnings and capital reserves accumulated from date of acquisition, net	**351,475**	232,744
Adjustments deriving from translation of financial statements of investee companies	**(1,425)**	(4,250)
	774,915	646,117
Less – investment in Company shares held by subsidiary	**(11,232)**	(15,428)
Capital reserve from acquisition and sale of debentures convertible into shares of the Company by a subsidiary	**399**	399
	764,082	631,088
Loans – C(1)	**242,417**	101,417
Perpetual loan – C(2)	**2,500**	2,500
	1,008,999	735,005

Note 7 - Investments in Investee Companies

Company

B. Movement during the year

	2004
	US$ thousands
Balance at beginning of year	**735,005**
Company's equity in net earnings of investee companies, net	**163,406**
Adjustments deriving from translation of financial statements of investee companies	**2,825**
Dividend	**(44,675)**
Realization of Company shares held by a subsidiary	**4,196**
Additional investments, net	**7,242**
Change in loans and capital notes, net	**141,000**
Balance at end of year	**1,008,999**

A list of the investee companies is presented in the Appendix.

C. Terms of loans and capital notes

(1) The loans bear interest at the Libor rate plus a margin which ranges between 0.8% and 2%. The loans as at December 31, 2004 are presented net of current maturities in the amount of US$ 4.5 million.

(2) The perpetual loan is non-linked and does not bear interest.

D. Additional information

(1) Acquisition of companies during the year of the report:

a. In April 2004, the Company, through wholly owned and controlled subsidiaries, signed agreements for acquisition of the ownership and control of a group of three companies: Vegetation Management LLC, Farm Saver. Com LLC, and Nation Ag II LLC – which are engaged in licensing the import and marketing of herbicides from the United States (hereinafter – "the Companies Acquired").

The aggregate consideration for the acquisition amounted to approximately US$ 67 million (the consideration is after an amendment to the original agreement made in December 2004). Approximately US$ 7.5 million of the aggregate consideration was paid through a transfer of 1,908 of the Company's shares that were held by a subsidiary (the cost of the shares is US$ 4.2 million).

The excess cost created on the acquisition date amounted to US$ 51.4 million, of which $28.4 million was attributed to intangible assets (mainly licensing and licenses), US$ 0.5 million was attributed to deferred tax liability, US $0.6 million was attributed to inventory and the balance, in the amount of US$ 22.9 million, was recorded as goodwill.

The excess cost attributed to the licensing and the licenses, as well as the goodwill, are being amortized over a period of 20 years which, in the Company's estimation, represents the period of economic benefit to be derived therefrom.

Note 7 - Investments in Investee Companies (cont'd)

Company

D. Additional information (cont'd)

(1) Acquisition of companies during the year of the report: (cont'd)

a. (cont'd)

The statements of income and cash flows of the Companies Acquired were consolidated as of May 1, 2004.

The effect of the first time consolidation of the activities acquired on the consolidated statements of income is an increase in revenues of US$ 24.1 million for the period ended December 31, 2004, and an increase to net income (after amortization of goodwill) of US$ 5.6 million for the same period. The impact on the consolidated balance sheet as at December 31, 2004 is an increase of assets in the amount of US$ 77.5 million.

b. During the year of the report, the Company signed, through subsidiaries, agreements for acquisition of three marketing companies, as follows:

1) In June 2004, the Company, through a wholly owned and controlled subsidiary, signed an agreement for acquisition of 45% of the rights in the U.S. company, Control Solutions Inc. (hereinafter – "CSI"), which is engaged in the marketing of pesticides to the non-agricultural market in the United States.

Based on the acquisition agreement, so long as the subsidiary holds 45% of the shares of CSI, decisions in areas critical to CSI are to be made jointly by all the shareholders of CSI. Therefore, CSI has been consolidated in the financial statements by means of the proportionate consolidation method.

In addition, the subsidiary was given an option, which may be exercised at any time during the next three years, to increase its share in CSI to 60%, in exchange for a payment ranging between US$ 1.5 million and US$ 10.5 million, in accordance with the earnings of CSI in 2004–2006.

Furthermore, commencing from 2009, both the subsidiary and the remaining shareholders of CSI have the right to require the subsidiary to acquire from the remaining shareholders of CSI the balance of their shares in CSI in consideration of an amount to be determined based on the income of CSI in the three years preceding the acquisition date.

2) In July 2004, the Company, through a wholly owned and controlled subsidiary, signed an agreement for acquisition of all the shares and rights of Farmoz PTY Limited, an Australian company engaged in the marketing and distribution of pesticides in Australia.

Note 7 - Investments in Investee Companies (cont'd)

D. Additional information (cont'd)

(1) Acquisition of companies during the year of the report: (cont'd)

3) In August 2004, the Company, through a subsidiary, signed an agreement for acquisition of 50.1% of the rights in the U.S. company, RiceCo LLC, which is engaged in the development and marketing of herbicides in the rice sector.

The aggregate cost of the acquisition of the marketing companies amounted to US$ 41 million. The excess cost created on the acquisition date amounted to US$ 31.1 million, of which US$ 15 million was attributed to intangible assets (mainly licensing and licenses), US$ 3.5 million was attributed to deferred tax liability, US$ 0.7 million was attributed to inventory and the balance, in the amount of US$ 18.9 million, was recorded as goodwill.

The excess cost attributed to the licensing and the licenses, as well as the goodwill, are being amortized over a period of 20 years which, in the Company's estimation, represents the period of economic benefit to be derived therefrom.

The statements of income and cash flows of the three marketing companies acquired were consolidated as of their acquisition dates. The total effect of the first time consolidation of the aforementioned marketing companies on the consolidated statements of income from the date of their initial consolidation is an increase in revenues of US$ 46.2 million for the period ended December 31, 2004 and a reduction of net earnings (after goodwill amortization) of US$ 0.3 million for that period. The effect on the consolidation on the balance sheet as at December 31, 2004, is an increase of assets in the amount of US$ 72.8 million.

(2) Subsequent to the balance sheet date, in January 2005, the Company signed an agreement by means of a company it wholly owns and controls, for acquisition of 49% of the shares and rights of Makhteshim Agan Benelux & Nordic B.V. ("Mabeno"), a Dutch company that serves as the exclusive distributor of herbicides of the Makhteshim Agan Group in the areas of Benelux and Scandinavia.
In accordance with the agreement, the acquisition will be executed in exchange for an issuance of Company shares in the amount of € 2,940 thousand, according to the market price of the share on the day of the transfer. In addition, the Company received an option to increase its holdings in Mabeno to 55%.

(3) With respect to Goodwill on acquisition of investee companies and the unamortized balance thereof – see Note 10.

(4) With respect to guarantees for investee companies – see Note 19E.

E. Convertible securities in investee companies

(1) A subsidiary, Lycored – Natural Products Industries Ltd. (hereinafter – "Lycored"), has granted stock options to employees, which, if exercised, will dilute the Company's holding in Lycored to about 87.72%.

Note 7 - Investments in Investee Companies (cont'd)

E. Convertible securities in investee companies (cont'd)

(2) On October 28, 2003, the Board of Directors of Luxembourg Medicine Ltd. (hereinafter – "Luxembourg") approved the issuance of options to employees of Luxembourg and its subsidiary. Exercise of the options will dilute the holding of the Company in Luxembourg to about 92%.

(3) As at the balance sheet date, exercise of the said options is reasonable and if all of the options are exercised (see Note 7E (1) (2)), the Company will sustain a loss from decline in the holdings' percentage, in the amount of US$ 2 million. The financial statements include a provision for this amount.

Note 8 - Long-Term Investments, Loans and Receivables

A. Composition

	Consolidated		Company	
	December 31 2004	December 31 2003	December 31 2004	December 31 2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Long-term investments, loans and receivables [B(1)]	**23,265**	18,349	**-**	-
Bank deposits [B(2)]	**-**	-	**19,016**	29,101
	23,265	18,349	**19,016**	29,101
Net of allowance for doubtful debts	**1,500**	1,500	**-**	-
	21,765	16,849	**19,016**	29,101
Less – current maturities	**420**	380	**-**	-
	21,345	16,469	**19,016**	29,101
Other investments [B(3)]	**725**	1,575	**-**	-
	22,070	18,044	**19,016**	29,101

B. Additional information

(1) Long-term investments, loans and receivables

A. Linkage terms and interest rates

	Consolidated	
	December 31 2004	December 31 2003
	US$ thousands	US$ thousands
In Israeli currency - not linked	**2,353**	-
In dollars	**1,710**	5,485
In Brazilian reals	**15,715**	7,699
In Argentine pesos	**2,352**	4,319
Other foreign currency	**1,135**	846
	23,265	18,349

The above investments, loans and receivables are non-interest bearing.

Note 8 - Long-Term Investments, Loans and Receivables (cont'd)

B. Additional information (cont'd)

(1) Long-term investments, loans and receivables (cont'd)

B. Maturities

The investments, loans and receivables mature as follows:

	US$ thousands
First year (current maturities)	**420**
Second year	**6,333**
Third year	**2,865**
Fourth year	**2,180**
Fifth year	**662**
With no defined repayment date	***10,805**
	22,845
	23,265

* Including restricted deposits and other assets in the amount of $ 5.3 million.

(2) Bank deposits

	Interest rate as at balance sheet date	Company	
		December 31 2004	December 31 2003
	%	US$ thousands	US$ thousands
Dollar deposits	4.0	**10,711**	20,799
Dollar deposits	5.1	**8,305**	8,302
		19,016	29,101

During the years 2001 and 2000, the Company made deposits in a Brazilian bank in the amount of US$ 8,300 thousand and US$ 45,600 thousand, respectively, for a five-year period. Such deposits serve as sole security for loans taken out by a subsidiary from the same bank and in the same amounts. The loans are in dollars, bear interest at the rate of 5.3% and 3.5% p.a. and are scheduled to be repaid in 2006 and 2005, respectively. The Company and the subsidiary are able to realize the deposit and make early repayment of the loan on certain dates as provided in the agreement.

In September 2003, the amount of $ 25 million was paid out of these deposits and in February 2004 the amount of an additional US$ 10 million was paid out of these deposits. Concurrently, loans were repaid in the same amount.

In the consolidated balance sheet, the amounts of the deposits were set-off against the amounts of the loans taken out by the subsidiary (see Note 14A).

(3) In 1998, the Company entered into an agreement with the shareholders of Hazera Genetics Ltd. and established a joint venture intended to function as a venture capital fund for the investment in companies which are engaged in the field of agricultural biotechnology. Other investments include the Group's share (50%) in biotechnology companies.
In the year of account the subsidiary provided the amount of US$ 1.1 million as impairment in value of these investments.

Note 9 - Fixed Assets

A. Composition

Consolidated

	Land and buildings	Plant and equipment	Motor vehicles	Office furniture and equipment	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Cost					
Balance as at the beginning of the year	123,345	635,438	4,824	22,809	786,416
Additions net of grants	6,979	26,174	1,101	3,835	38,089
Newly consolidated company	809	635	587	1,252	3,283
Disposals	(408)	(925)	(1,513)	(398)	(3,244)
Balance as at the end of the year	130,725	661,322	4,999	27,498	824,544
Accumulated depreciation					
Balance as at the beginning of the year	44,304	297,561	2,812	14,994	359,671
Additions	4,059	22,717	719	3,132	30,627
Newly consolidated company	82	264	227	351	924
Eliminated on disposals	(408)	(589)	(1,158)	(262)	(2,417)
Balance as at the end of the year	48,037	319,953	2,600	18,215	388,805
Net book value					
As at December 31, 2004	**82,688**	**341,369**	**2,399**	**9,283**	**435,739**
As at December 31, 2003	79,041	337,877	2,012	7,815	426,745

	December 31	
	2004	2003
	US$ thousands	US$ thousands
Cost of assets includes:		
Buildings and development on freehold land	**83,289**	75,970
Buildings and development on land held under capitalized leases	**47,436**	47,375
Capitalized financing expenses	**19,019**	19,019
Fully-depreciated equipment	**107,741**	106,639
Cost of assets is net of grants received	**99,015**	98,559

Note 9 - Fixed Assets (cont'd)

B. Additional information

(1) Makhteshim's plants are located on land in Ramat Hovav and in Beer-Sheva which is leased from the Israel Lands Administration. The leasehold periods terminate between 2018 and 2029 with renewal options. The leasehold rights have not yet been registered in the name of Makhteshim in the Israel Land Registry. (The legal advisors of Makhteshim are attending to the registration).

Agan's plant is located on freehold land of approximately 121 dunams in Ashdod, of which 90 dunams are registered in the name of Agan in the Land Registry with the remaining area of approximately 30 dunams, which was acquired in 1996, currently undergoing the registration process.

Plants of foreign investee companies are constructed on freehold land.

(2) Regarding liens – see Note 20.

Note 10 - Other Assets and Deferred Charges

A. Composition:

Consolidated

	December 31, 2004		
	Cost	Accumulated amortization	Unamortized balance
	US$ thousands	US$ thousands	US$ thousands
Product registration and acquisition of know-how	**265,719**	**110,206**	**155,513**
Goodwill on acquisition of subsidiaries	**153,963**	**51,489**	**102,474**
Intangible assets on purchase of products	**281,223**	**41,186**	**240,037**
Marketing rights	**36,099**	**10,705**	**25,394**
Debenture issuance expenses	**3,730**	**1,272**	**2,458**
Non-competition and confidentiality agreement	**2,576**	**1,032**	**1,544**
	743,310	**215,890**	**527,420**

	December 31, 2003		
	Cost	Accumulated amortization	Unamortized balance
	US$ thousands	US$ thousands	US$ thousands
Product registration and acquisition of know-how	178,855	94,483	81,386
Goodwill on acquisition of subsidiaries	111,056	37,093	73,963
Intangible assets on purchase of products	281,223	23,063	258,160
Marketing rights	36,099	7,870	31,215
Debenture issuance expenses	2,466	848	1,618
Non-competition and confidentiality agreement	2,576	516	2,060
	612,275	163,873	448,402

Note 10 - Other Assets and Deferred Charges (cont'd)

Company

	December 31, 2004		
	Cost	**Accumulated amortization**	**Unamortized balance**
	US$ thousands	**US$ thousands**	**US$ thousands**
Debenture issuance expenses	**3,730**	**1,272**	**2,458**

	December 31, 2003		
	Cost	**Accumulated amortization**	**Unamortized balance**
	US$ thousands	**US$ thousands**	**US$ thousands**
Debenture issuance expenses	2,466	848	1,618

B. Additional details

1. In October–November 2002, subsidiaries, which are wholly-controlled by the Company, signed a number of agreements with Bayer Crop Science AG for acquisition of a number of products, licenses and distribution rights in the area of vegetation protection. The total consideration for acquisition of the products amounted to US$ 185.3 million, which is presented in the "other assets and deferred expenses" category.
   Approximately US$ 34.6 million of the consideration was allocated to acquisition of permits and licenses in connection with the products and is amortized over a 20-year period in the "selling and marketing expenses" category, and approximately US$ 144.1 million was allocated to acquisition of the products in the framework of a "going concern", which constitutes goodwill on the acquisition of products, and which is amortized over a 20-year period in the "other expenses" category.

   The consideration in respect of acquisition of the marketing and distribution rights, in the amount of US$ 6.6 million, is being amortized over a period of 6–8 years.

2. In 2001, fully controlled subsidiaries of the Company signed agreements with Aventis and Syngenta A.G. for the purchase of four new agrochemical products as well as the purchase of marketing and distribution rights of a product package in the Scandinavian countries. One of the products which was purchased is still protected by patents which were transferred to the purchasing company.

   The total price paid for purchase of the four products totaled US$105 million, and it is included in the "other assets and deferred charges" category. Of the amount paid, US$20 million was attributed to registration costs and licensing, which are amortized over a period of 20 years in the "selling and marketing expenses" category, US$2.5 million was attributed to the purchase of agreements with third parties, which is amortized over a period of 10 years, and the balance of the amount was attributed to the purchase of the product as a going concern which includes: intellectual rights, trade name, brand name, technological know-how, information on customers and suppliers of materials, etc., which constitutes goodwill on the purchase of the products and is amortized over a period of 20 years under other expenses. The price of the marketing and distribution rights was US$5 million and is amortized over a period of 9 years.

Note 10 - Other Assets and Deferred Charges (cont'd)

B. Additional details (cont'd)

3. Regarding goodwill and other assets created in the framework of acquisition of companies during the period of the report, see Note 7D.

4. In connection with a non-competition and confidentiality agreement with the former CEO of Milenia, see Note 30A(4).

Note 11 – Short-term Credit from Banks

A. Composition

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Credit from banks				
Overdrafts	**55,613**	54,656	-	-
Short-term loans	**57,366**	24,946	-	-
	112,979	79,602	-	-
Current maturities of long-term loans	**27,042**	63,215	-	4,500
	140,021	142,817	-	4,500

B. Linkage terms and interest rates

	Weighted interest rate at balance sheet date	Consolidated		Company	
		December 31		December 31	
		2004	2003	2004	2003
	%	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Credit from banks					
Overdrafts:					
In Israeli currency	1.8	**2,892**	543	-	-
In US dollars	4.0	**39,272**	33,996	-	-
In Euro	4.5	**11,350**	17,228	-	-
In Brazilian currency	16.9	**1,814**	2,408	-	-
In other currencies		**285**	481	-	-
		55,613	54,656	-	-
Short-term credit:					
In Euro		**-**	1,807	-	-
In dollars (1)	3.5	**51,677**	18,895	-	-
In other currencies	4.7	**5,689**	4,244	-	-
		57,366	24,946	-	-
		112,979	79,602	-	-

(1) The loans mainly bear variable interest at an annual rate of between 0.8% and 1.7% above the LIBOR.

C. Regarding collateral – see Note 20A.

Note 12 - Trade Payables

Consolidated

	December 31	
	2004	2003
	US$ thousands	US$ thousands
Open accounts	**325,770**	242,795
Checks payable	**175**	275
	325,945	243,070

Note 13 - Other Payables

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Salaries and payroll accruals	**32,591**	29,852	**2,627**	4,550
Accrued income taxes, net of advance payments	**38,047**	17,819	**-**	-
Government agencies	**5,804**	7,058	**142**	327
Subsidiaries – current account	**-**	-	**33**	56
Liability for securities sold short (1)	**5,627**	15,418	**-**	-
Payables in respect of currency transactions	**9,608**	9,956	**-**	-
Accrued expenses and deferred income	**63,672**	34,180	**3,209**	687
Payables in respect of acquisition of subsidiary	**6,500**	6,300	**-**	-
Others	**30,556**	29,958	**749**	753
	192,405	150,541	**6,760**	6,373

(1) Subsidiary borrows marketable bonds from a bank for purposes of the short sale thereof. The borrowing period is three months, which is renewed every three months subject to the lender's agreement.

The subsidiary's liability in respect of the bonds borrowed, is presented based on the market value of the bonds as at the balance sheet date.

Note 14 - Long-Term Loans from Banks

A. Composition

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Loans from banks*	**120,065**	332,448	-	16,875
Less – current maturities	**27,042**	63,215	-	4,500
	93,023	269,233	-	12,375
* After the deduction of an investment in bank deposits (see Note 8B2) in the amount of:	**19,016**	29,101	-	-

B. Linkage terms and interest rates

	Weighted interest rate at balance sheet date*	Consolidated		Company	
		December 31		December 31	
		2004	2003	2004	2003
	%	US$ thousands	US$ thousands	US$ thousands	US$ thousands
In US dollars	3.6	**103,124**	313,148	-	16,875
In Euro	3.5	**9,189**	9,396	-	-
In Israeli currency	7.4	**1,548**	2,633	-	-
In other foreign currency	5.2	**6,204**	7,271	-	-
		120,065	332,448	-	16,875

* Most of the loans bear interest at the Libor rate plus a margin.

C. Maturities

	Consolidated
	US$ thousands
First year – current maturities	**27,042**
Second year	**51,015**
Third year	**19,282**
Fourth year	**11,830**
Fifth year	**5,896**
Sixth year and thereafter	**5,000**
	120,065

Note 14 - Long-Term Loans from Banks (cont'd)

D. Regarding the commitment of the Company and certain subsidiaries to banks, to maintain certain financial criteria, mainly, debt-equity and profitability ratios – see Note 20C.

E. Collaterals – see Note 20A.

Note 15 - Convertible Debentures

A. **Presented in the "long-term liabilities" category**

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Debenture principal	**150,000**	-	**150,000**	-

1. In March 2004, the Company issued, as part of a private issuance to institutional investors (mainly overseas), non-marketable convertible debentures, in the amount of US$ 150 million par value (including US$ 5 million which was issued to the underwriters in April 2004), in exchange for their par value. The period of the debentures is 7 years and they bear annual interest at the rate of 1.75%, which is to be paid once a year, in March. The debentures may be converted into ordinary registered shares of NIS 1 par value each, at a conversion rate of NIS 20.5 par value, based on a fixed rate of exchange of US$1 = NIS 4.514. The ordinary shares to be issued as a result of conversion of the debentures shall be registered for trading on the Tel-Aviv Stock Exchange.

   The owners of the debentures shall have the right to demand payment of the debentures (principal and interest up to that date) on March 22, 2007, by means of advance written notice (which is given 30–60 days prior to March 22, 2007).

   The Company shall have the right to execute a forced conversion of the debentures commencing on March 22, 2007, this being so long as the average price per Company share in the period of 20 business days which preceded its notification of forced conversion, shall be at least 30% higher than the price of the conversion rate of the debentures.

   The Company committed to the debenture purchasers that it would refrain from creating additional liens on its property, the purpose of which is the guarantee of marketable securities or other securities which the Company intends to register for trading.

   The total issuance expenses with respect to the aforementioned debentures amounted to US$ 2.5 million.

2. As at the balance sheet date, conversion of the said debentures is not expected and, accordingly, they are presented in the balance sheet as part of the "long-term liabilities" category.

Note 15 - Convertible Debentures (cont'd)

B. Presented in a separate category between "long-term liabilities" and "shareholders' equity"

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Debenture principal	**39,474**	81,950	**39,474**	81,950
Discount balance, net	**(1,152)**	(4,245)	**(1,565)**	(4,658)
	38,322	77,705	**37,909**	77,292

1. In November 2001, convertible debentures and options were issued pursuant to a prospectus, as follows:

   NIS 270,000,000 par value registered debentures (Series A) offered at 90% of the par value, repayable in a lump-sum payment on November 20, 2007, bearing interest at the annual rate of 2.5% and linked (interest and principal) to the representative exchange rate of the dollar. On any trading day, commencing with the registration date of the debentures (Series A) for trading on the stock exchange and up to and including October 31, 2007, the debentures (Series A) are convertible into fully paid-up ordinary registered shares of NIS 1 par value each, based on a conversion rate of NIS 10.68 par value debentures (Series A) for one ordinary share of NIS 1 par value.

   As a result of dividend distributions, the conversion rate was updated and, as at the balance sheet date, it stands at NIS 10.03 par value.

   18,000,000 registered options (Series 1), exercisable for 18,000,000 ordinary shares of NIS 1 par value each of the Company, on any trading day, commencing with the registration date thereof for trading on the stock exchange and up to and including November 20, 2005, such that every option (Series 1) may be exercised for one ordinary share of NIS 1 par value (subject to adjustments), against a cash payment of the exercise price of NIS 10.68, linked to the representative exchange rate of the dollar. In any case, the exercise price will not be less than NIS 10.68. An option (Series 1) which is not exercised up to and including November 20, 2005, will be invalid and will not convey to its holder any right vis-à-vis the Company.

   As a result of dividend distributions, the exercise price was updated and, as at the balance sheet date, it stands at NIS 10.03

   The securities were offered to the public in 1,200,000 units by means of a tender on the unit price, where the composition of each unit is NIS 225 par value of debentures (Series A) at the price of 90% of their par value (NIS 202.5) and 15 options (Series 1) for no consideration. The total minimum price per unit was NIS 202.5.

   The price per unit determined as part of the tender was NIS 220. Taking into account the economic value of the options (Series 1) the discount rate with respect to the debentures (Series A) is 9.3%. The gross consideration received in the issuance is US$ 62.5 million, of which US$ 58.5 million was attributed to the debentures (Series A) and US$ 4.0 million was attributed to the options (Series 1).

Note 15 - Convertible Debentures (cont'd)

B. Presented in a separate category between "long-term liabilities" and "shareholders' equity" (cont'd)

2. In January 2002, the Company issued to investors, as part of a private placement, NIS 133,980 thousand par value convertible debentures (Series A), at a price of NIS 1.015 for NIS 1 par value of debentures (Series A), for an aggregate consideration of US$ 29.5 million.
   The terms of the convertible debentures (Series A) are identical to the terms of the debentures (Series A), issued by the Company, as stated in Section A., above.

3. In June 2002, a subsidiary acquired on the stock exchange, approximately NIS 16,684 thousand par value of debentures (Series A), for a consideration of US$ 3.2 million. The difference between the acquisition cost and the liability value of the debentures acquired on the books, in the amount of US$ 0.4 million, was recorded as a capital reserve in the shareholders' equity section.
   During June 2003, all the above-mentioned debentures were sold for a consideration of US$ 4.3 million.

4. In 2003, NIS 57,660,575 par value of debentures (Series A) were converted into 5,565,649 ordinary shares of NIS 1 par value, the majority at a conversion rate of NIS 10.36 par value debentures for one ordinary share of NIS 1 par value. The total share capital issued as a result of the conversion is US$ 1,270 thousand, with a premium of US$ 11,331 thousand.

   In the year of account, NIS 179,607,707 par value of debentures (Series A) were converted into 17,582,221 ordinary shares of NIS 1 par value, at a conversion rate of NIS 10.03–10.36 par value debentures for one ordinary share of NIS 1 par value. The total share capital issued as a result of the conversion is US$ 3,974 thousand, with a premium of US$ 35,581 thousand. Subsequent to the balance sheet date and proximate to the date of authorization of the financial statements, NIS 12,839 thousand par value of debentures (Series A) were converted into 1,280 thousand ordinary shares of NIS 1 par value.

5. As at the balance sheet date, conversion of the said debentures is expected and, accordingly, they are presented in the balance sheet in a separate category between the "long-term liabilities" and the "shareholders' equity" sections based on their liability value.

Note 16 - Other Long-Term Liabilities

Consolidated

Linkage terms and interest rates

	Weighted interest rate as of balance sheet date	December 31	
		2004	2003
	%	US$ thousands	US$ thousands
Liabilities linked to the US dollar	2	**9,195**	400
Liabilities linked to the Brazilian Real		**-**	1,880
Liabilities linked to another currency	4.5	**142**	190
		9,337	2,470

The liabilities are schedule for repayment in the years 2006 - 2008.

Note 17 - Taxes on Income

A. Benefits under the Law for the Encouragement of Capital Investments, 1959

The plants of the subsidiaries in Israel have been granted "Approved Enterprise" status under the Law for the Encouragement of Capital Investments, 1959. Part of the income deriving from the approved enterprises during the benefit period is subject to tax at the rate of 25% (the total benefit period is for seven years and in certain circumstances ten years, but does not exceed beyond either 14 years from the date of the letter of approval or 12 years from the date the approved enterprise commenced operations).

Other plants of subsidiaries in Israel are entitled to a tax exemption for periods of between two and six years and a reduced tax rate of 25% for the remainder of the benefit period. Should a dividend be distributed from the tax-exempt income, the subsidiaries will be liable to pay tax on the income from which the dividend was distributed at a rate of 25%.

The benefit period has ended for some of the plants of the subsidiaries and the benefit period for others will end during years up to 2008. In addition, subsidiaries have other investment programs in progress, or for which the benefit period with respect thereto has not yet commenced.

The abovementioned benefits are conditional upon compliance with certain conditions specified in the Law and related Regulations, and in the letters of approval, in accordance with which the investments in the approved enterprises were made. Failure to meet these conditions may lead to cancellation of the benefits, in whole or in part, and to repayment of any benefits already received, together with interest. Management believes that the companies are complying with these conditions.

B. Benefits under the Law for the Encouragement of Industry (Taxes), 1969

Under the Law for the Encouragement of Industry (Taxes) 1969, the Company is an industrial holding company and the subsidiaries in Israel are “industrial companies”. The main benefit under this law is the filing of consolidated income tax returns. The Company files a consolidated income tax return with Makhteshim.

Note 17 - Taxes on Income (cont'd)

C. Taxation under inflationary conditions

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. The financial statements are presented in US dollars.

D. Benefits for development areas

A subsidiary is subject to the Income Tax Regulations (Tax Reductions in Certain Settlements and Agriculture-based Army Units ("Nahal")), 1978. Under these Regulations, the subsidiary is entitled to an additional deduction, at the rate of 25% of the tax depreciation claimed in respect of the plants constructed in Ramat Hovav.
These Regulations were in effect until December 31, 2003.

E. Foreign subsidiaries

The subsidiaries are assessed according to the tax laws applicable in the respective countries where these subsidiaries operate.

F. Change in tax rate

On June 29, 2004, Income Tax Ordinance Amendment (No. 140 and Temporary Order), 2004 (hereinafter – "the Amendment") passed the second and third reading in the Israeli Knesset. The Amendment provides that the Companies Tax rate shall be gradually reduced, commencing from January 1, 2004 from 36% to 30% in the following manner: in 2004 – 35%, in 2005 – 34%, in 2006 – 32% and in 2007 and thereafter – 30%.

G. Deferred taxes

	Consolidated		**Company**	
	December 31		**December 31**	
	2004	**2003**	**2004**	**2003**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
(1) Movement				
Balance at beginning of year	**33,522**	30,289	**(6,250)**	(3,743)
Included in statement of income	**(163)**	3,233	**(749)**	(2,507)
Newly consolidated	**3,958**	-	-	-
Balance at end of year	**37,317**	33,522	**(6,999)**	(6,250)
Classified as:				
Other receivables	**(17,037)**	(10,256)	**(325)**	(5,155)
Long-term liabilities (in the balances of the long-term debt)	**54,354**	43,778	**(6,674)**	(1,095)
	37,317	33,522	**(6,999)**	(6,250)

Note 17 - Taxes on Income (cont'd)

G. Deferred taxes (cont'd)

(2) Composition

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Deferred taxes in respect of:				
Depreciable assets	**81,606**	81,876	**-**	-
Carryforward tax losses	**(19,864)**	(33,233)	**(5,343)**	(4,077)
Inventories	**(17,615)**	(7,124)	**-**	-
Employee severance benefits, net	**(11,467)**	(11,142)	**(1,656)**	(2,097)
Other temporary differences	**699**	3,145	**-**	(76)
Newly consolidated	**3,958**	-	**-**	-
	37,317	33,522	**(6,999)**	(6,250)

In the consolidated balance sheet, deferred taxes are computed at rates ranging between approximately 29% and 35% (Company – 29%).

H. Composition of tax expense (benefit)

Consolidated

	For the year ended December 31		
	2004	2003	2002
	US$ thousands	US$ thousands	US$ thousands
Taxes in respect of the reported period:			
Current	**51,228**	24,702	10,334
Deferred	**(3,034)**	3,173	4,371
	48,194	27,875	14,705
Taxes in respect of prior years:			
Current	**1,269**	4,683	(4,793)
Deferred	**2,871**	60	2,546
	4,140	4,743	(2,247)
	52,334	32,618	12,458

Note 17 - Taxes on Income (cont'd)

H. Composition of tax expense (benefit) (cont'd)

Company

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Current	**2**	29	-
Deferred	**(749)**	(2,507)	214
	(747)	(2,478)	214

I. Theoretical tax

Following is a reconciliation between the theoretical tax and the tax expense included in the statement of income:

Consolidated

	For the year ended December 31		
	2004	**2003**	**2002**
	35%	**36%**	**36%**
	US$ thousands	**US$ thousands**	**US$ thousands**
Tax expense computed at regular tax rate	**76,608**	49,030	26,266
Tax benefit for approved enterprises	**(10,203)**	(3,727)	(5,985)
Benefit for plants in development areas	**-**	(2,109)	(1,723)
Difference between financial statement measurement of income and tax basis	**2,559**	(4,868)	4,388
Change in rate of deferred taxes	**(1,912)**	2,384	-
Income taxable at other tax rates	**(20,732)**	(14,490)	(9,672)
Taxes in respect of previous years	**4,140**	4,743	(2,247)
Nondeductible expenses and other differences	**1,874**	1,655	1,431
	52,334	32,618	12,458

Company

	For the year ended December 31		
	2004	**2003**	**2002**
	35%	**36%**	**36%**
	US$ thousands	**US$ thousands**	**US$ thousands**
Tax expense computed at regular tax rate	**57,673**	36,107	21,705
Difference between financial statement measurement of income and tax basis	**353**	166	166
Equity in earnings of investee companies, net	**(57,192)**	(37,446)	(21,486)
Nondeductible expenses and other differences	**(1,581)**	(1,305)	(171)
	(747)	(2,478)	214

Note 17 - Taxes on Income (cont'd)

J. Final assessments

The Company, Makhteshim, Agan and Lycored have received final tax assessments up to and including the 2001 tax year. Luxembourg and Bio-Dar Ltd. have received final tax assessments up to and including 1998. Other companies in Israel have not received tax assessments since their inception.

K. Losses and deductions available for carryforward to future years

As at the balance sheet date, the losses for tax purposes which are available for carryforward to future tax years, amount to US$ 66 million.

The Company has recorded a deferred tax asset with respect to the accrued losses, in the amount of US$ 19.9 million, based on Management's estimation that there is a high level of certainty that such losses will be utilized in the upcoming years.

L. Additional Information

Regarding fiscal claims against Milenia – see Note 19D(3).

Note 18 - Employee Termination Benefits, Net

A. Composition

	Consolidated		Company	
	December 31		December 31	
	2004	2003	2004	2003
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Accrued severance pay and retirement grants	**26,576**	23,831	**4,591**	3,911
Less – deposits in severance pay funds	**15,957**	13,763	**-**	-
	10,619	10,068	**4,591**	3,911
Early retirement pension	**13,248**	12,399	**-**	-
Accrual for unutilized sick leave	**2,842**	2,307	**-**	-
	26,709	24,774	**4,591**	3,911

Note 18 - Employee Termination Benefits, Net

B. Severance pay and retirement grants

The Company and its subsidiaries in Israel make regular deposits with "Nativ" (the Pension Fund of the Workers and Employees of the Histadrut Ltd.) and insurance companies. These deposits are intended to provide employees with pension rights or severance pay upon reaching retirement age. Amounts deposited in the pension fund and insurance companies are not included in the balance sheet because they are not under the management or control of the companies.

Employees dismissed before attaining retirement age are eligible for severance benefits, computed on the basis of their most recent salary. Where the amounts accumulated in the pension fund are not sufficient to cover the computed severance benefits, the companies will cover the difference. Experience has shown that the majority of salaried employees continue to work until retirement age and the companies have not been required to cover substantial differences in severance pay to employees who retire prior to reaching retirement age. Management of the Company and the subsidiaries accordingly believe that it is unlikely that it will be necessary to cover such differences and therefore no accrual has been made in the financial statements.

In addition to their abovementioned pension rights, employees are entitled to receive retirement grants at the rate of 2.33% of their salary at retirement age. The accrual in the balance sheet covers the companies' obligations with regard to these retirement grants, as well as their liability to pay severance benefits to some of their employees for the period prior to the date on which these employees joined the pension plan, during which period no deposits had been made in the fund in the name of the employee.

C. Deposits with severance pay fund and retirement grants

The deposits in the severance pay funds include accrued linkage differences and interest and are made in severance pay funds with banks and insurance companies. Withdrawal of the amounts on deposit is contingent upon the fulfillment of the provisions set forth in the Severance Pay Law.

D. Compensation for unutilized sick leave

The financial statements include an accrual for compensation in respect of unutilized sick leave for employees who are 55 and older. No accrual is made in respect of employees under the age of 55 as it is uncertain as to whether or not they will receive such compensation (by reason of utilization of sick leave or early retirement). The accrual is computed, using the latest wage rates, on the basis of eight work days for each year of employment in which sick leave was not utilized.

E. Early retirement pension

The financial statements include a provision for payment of pension benefits to a number of employees whose work was terminated before they reached retirement age. The provision was calculated by reference to the period from the time their work was terminated until the date stipulated in the agreement, on the basis of the present value of the pension payments (the interest rate used in the present value calculation was 3.6% per annum).

At the beginning of 2004, the Knesset passed a law according to which the Articles of Association for pension funds were changed, such that the retirement age will be gradually raised for men from 65 to 67 and for women from 60 to 62.

In the estimation of Company Management, the above-mentioned law will have no effect on the Company’s liabilities for early retirement in connection with its employees who left prior to reaching retirement age.

Note 19 - Commitments and Contingent Liabilities

A. Commitments

(1) The Articles of Association of the Company and its subsidiaries permit, subject to the governing companies' laws, including the provision of the Companies Law, indemnification and insurance of the responsibilities of directors and officers therein, provided that if the Company decides to provide advance indemnification, the amount of such indemnification shall be limited to 25% of the Company's shareholders' equity as at the date the indemnification is granted.

(2) Liability of directors and officers of the Company and its subsidiaries is insured as part of a policy. The limit of the insured responsibility is US$ 100 million.
The directors who were insured within the policy include all of the Company's directors as well as the directors of the subsidiaries.

(3) A subsidiary has a long-term supply contract with an international company in the annual amount of US$ 17 million for a five-year period (2001 – 2006). Based on the contracts, a multi-national company participates in part of the manufacturing costs.

(4) Regarding undertakings of the Company and its subsidiaries as part of a securitization transaction – see Note 3(1).

(5) Regarding undertakings with interested parties – see Note 30A.

B. Contingent liabilities

(1) In accordance with the Law for the Encouragement of Capital Investments, 1959, subsidiaries received grants from the State of Israel in respect of investments made in fixed assets as part of plant expansion projects authorized by the Investment Center. Receipt of grants is conditional upon fulfillment of the terms of the letter of approval which include, among other things, exports at certain rates. If the companies do not comply with the required terms, the grants will have to be refunded, together with interest from the date of their receipt. Management believes that the subsidiaries are in compliance with the conditions for approval.

(2) In accordance with the Law for the Encouragement of Research and Development in Industry, 1984, subsidiaries received grants from the State of Israel in respect of their research and development expenses incurred on projects approved by the Industrial Research and Development Administration. Receipt of the grants is conditional upon compliance with the terms of the letter of approval which include, among other things, the payment of royalties to the State at rates of between 2%–3.5% of the sales of products, up to the amount of the State's participation.

The balance of the State's participation in the companies' research and development expenses (net of royalties paid in respect thereof), after deduction of participations in expenses of unsuccessful research projects which were abandoned, amounts to approximately US$ 6 million.

Note 19 - Commitments and Contingent Liabilities (cont'd)

B. Contingent liabilities (cont'd)

(3) The Company has undertaken to indemnify the economic consultants who determined the exchange ratio for the Arrangement (see Note 1B) for reasonable expenses that they may be required to pay for legal consultation and representation in the event that legal proceedings are brought against them in connection with their opinion. In addition, the Company will indemnify the economic consultants for any damages payable in consequence of legal proceedings which exceed US$ 1.5 million. The Company shall not be liable to indemnify the economic consultants if it is determined that they acted with gross negligence or willful misconduct in connection with their opinion.

(4) A subsidiary has an agreement pursuant to which it will pay royalties at the rate of 4% of sales, with certain reductions stated in the agreement, with respect to a product whose development rights were acquired by the subsidiary, for a period of 10 years beginning from the year 2000, the date on which sales of the product to outsiders reached the level of sales stipulated in the agreement. Under certain conditions, the royalties may be reduced to a rate of not less than 2%.

(5) In Israel the Stamp Duty on Documents Law – 1961 (hereinafter – the Law) applies to various documents at various rates, according to the type of the document and the amount specified or not specified in it. In June 2003 Section 15A of the Law regarding the identity of those required to pay stamp duty was amended.

Beginning from June 2003 the Israeli Tax Authorities increased enforcement of the law. The amendment to the Law and the enforcement measures taken by the Tax Authorities were raised for discussion at the Supreme Court, which has not yet established its opinion on the matter. Furthermore, in accordance with legislative trends it is anticipated that the Stamp Duty Law will be gradually annulled and that by 2008 it will be completely annulled.

In August 2004 the Customs and VAT Department requested from a subsidiary to produce documents the company had signed after June 1, 2003. The Customs and VAT Department contends that the Law requires the payment of stamp duty on the requested documents. Furthermore, the company was issued a stamp duty notice with respect to a document it had signed with a third party.

In the opinion of management of the Company, which is based on the opinion of its legal counsel, the Company does not stand before any material exposure in respect of any demand arising from the Stamp Duty Law.

Note 19 - Commitments and Contingent Liabilities (cont'd)

C. Environmental quality

(1) The operations of the Company and of its investee companies are exposed to risks related to environmental contamination, since they produce, store and sell chemicals. The Group invests substantial sums in order to comply with environmental laws and regulations, and management believes that the Group companies are in compliance with those laws. In accordance with the estimate of the Company's insurance experts, the Group insurance policies cover any sudden, unexpected environmental contamination caused in Israel and the rest of the world, subject to the conditions of the relevant policies. As at December 31, 2004, the Group did not have any coverage against ongoing environmental contamination. Such insurance is difficult to obtain, and in cases when it can be obtained, the Company believes that the terms of the policy, including the amount of the insurance coverage, do not presently justify obtaining such a policy.

(2) Pursuant to an agreement with the Ministry of Environmental Protection, subsidiaries decided to construct facilities for the biological treatment of waste. Construction of the facility will take about 3 years. In the estimation of the subsidiary's management, the aggregate construction cost will be between US$ 30 million and US$ 40 million.

(3) One of the subsidiary's plants, together with other chemical plants, was constructed in Ramat Hovav, since the Government of Israel determined that the location was suitable for chemical plants as it was assumed that the layers of the soil in that area were absolutely sealed against penetration by liquid discharges or contamination. The Ministry of Environmental Protection conducted tests as a result of which it was reported that data exist indicating subterranean contamination in Ramat Hovav. The inspectors recommended that steps be taken to prevent further leakage from active and dormant installations which are likely to constitute a source of contamination of the subterranean water in the region.

The subsidiary may be required to clean up the relevant areas or subterranean layers if and when it is found that the subsidiary is responsible for the said contamination. Over the past several years various tests have been performed by different agencies to test the ground contamination in the Ramat Hovav area as well as the area surrounding the subsidiary's premises in Be'er Sheva. In the opinion of Company Management, no material consequences on the financial statements are expected due to application of the recommendations deriving from the said examinations.

(4) In May 2004, a subsidiary and other factories in the Ramat Hovav area received a notification of a change in the terms of the license, according to which the factories will be required to treat their waste, in contrast with the current treatment, independently and through application of evaporation procedures, in the framework of which the factories are required to perform within a short time, research and development for purposes of conformance of the procedures to the composition of each factory's waste, and later on to construct an appropriate facility, as well as application of formulation procedures, in the framework of which the factories are required to present research and development plans to the Ministry for purposes of application of the procedures with respect to the waste. At the same time, the Ministry of Environmental Protection set a date by which the factories are required to treat their waste in the required format and to stop the flow of waste into the evaporation pools and the waste treatment facilities of the Council.

Note 19 - Commitments and Contingent Liabilities (cont'd)

C. Environmental quality (cont'd)

(4) (cont'd)

On October 10, 2004, the subsidiary, together with the Israeli Union of Industrialists and other companies, filed an administrative petition with the District Court of Be'er Sheva against the Ministry of Environmental Protection. The subject of the petition is in respect of the additional conditions for receipt of a business license that were imposed on the petitioning factories in May 2004 that deal with treatment and removal of waste accumulated as a result of their operations.

As part of the petition, the Court was requested to issue an order declaring that the additional conditions are null and void.

On December 29, 2004, a preliminary hearing was held with respect to the petition and it was determined that the hearing on the petition will be held on March 7, 2005.

In the estimation of Company Management, based on the advice of its legal advisors, in light of the early stage of the proceedings, it is not possible at this stage to predict the chances of the administrative petition succeeding.

In the Company's estimation, if the petition is rejected, such rejection will have a material impact on the activities of the factory in Ramat Hovav and/or investments will be required, the scope of which the Company is unable to estimate at this point.

(5) On November 28, 2004, a Government decision was received that approves a plan in connection with reduction of damaging air and water pollution agents deriving from the Ramat Hovav area.

A. Treatment of Factory Waste

1. By June 30, 2006, flow of the untreated waste into the joint biological treatment facility will be discontinued, and every factory will treat its waste up to the quality level determined by the Ministry of Environmental Protection (as determined in additional terms of the business license from May 2004).

2. By December 31, 2007, flow of the runoff into the existing evaporation pools will be discontinued, and every factory will treat its runoff up to the quality level determined by the Ministry of Environmental Protection (as determined in additional terms of the business license from May 2004).

Note 19 - Commitments and Contingent Liabilities (cont'd)

C. Environmental quality (cont'd)

B. Rehabilitation of the Existing Evaporation Pools

1. From January 1, 2005, the Ramat Hovav Industrial Council will commence activities to dry out and rehabilitate the area of the evaporation pools spanning an area of about 1,500 dunams, in an attempt to complete such drying out and rehabilitation activities no later than the end of 2012.

2. The Ramat Hovav Industrial Council will submit a detailed plan along with timetables for the drying out and rehabilitation of the area of the evaporation pools for approval by the Ministry of Environmental Protection by December 31, 2004.

C. Treatment of Air Pollution

The Ministry of Environmental Protection will formulate and operate a plan for prevention of exceptional emissions of dangerous substances into the air in the Ramat Hovav Industrial Area.

Regarding the possible consequences of the said Government decision on the Company's activities, see Section 4, above.

D. Claims against subsidiaries

(1) A claim has been submitted against Milenia on the grounds that a certain process it uses is a protected trade secret, which was copied from the plaintiff. Accordingly, Milenia is demanded to indemnify the plaintiff for unfair competition at an amount of approximately US$ 9 million (based on a calculation of the amount of the material used). Furthermore, the plaintiff demands that Milenia be fined US$ 25 per day, in respect of the unlawful use of trade secrets.

In February 2004, Milenia and the plaintiff reached a settlement with no indemnity to the parties, under which each of the parties paid fees to their own attorneys. The total cost to Milenia amounted to approximately US$ 0.2 million.

(2) In 1995, a claim was submitted against Milenia and a number of other parties for a total amount of approximately US$ 36 million by a group which purchased the rights of two banks which went bankrupt. The remainder of the claim is being submitted against Milenia in its capacity as a guarantor for agricultural cooperatives, which were its former shareholders.

Milenia's position is that it was excluded from the guarantee agreement by a later agreement between the bank, the former shareholders and the other subsidiary of the former shareholders. A provision of approximately US$ 2 million was recorded in the financial statements for this claim, based on a possibility of settlement in due course. Milenia's position, based on an analysis by their legal advisors, is that, the provision recorded is sufficient to cover any probable losses it may have on this case.

Note 19 - Commitments and Contingent Liabilities (cont'd)

D. Claims against subsidiaries (cont'd)

(3) Administrative proceedings as well as civil and other fiscal claims have been submitted against Milenia totaling approximately US$ 48.5 million.
Milenia's management believes based on, inter alia, the opinion of its legal advisors, that its chances of winning in the administrative proceedings and successfully defending against the aforesaid claims and demands, are probable and the provisions included in the financial statements are sufficient to cover any losses, which may be incurred as a result of these claims.

(4) A claim was filed against Agan in the District Labor Court, for payment of approximately US$1 million, in respect of severance pay. The plaintiff contends that he was a salaried employee of Agan and that the payments made by Agan to a company which he owned must be considered his determining salary for purposes of payment of severance pay. Agan submitted a statement of defense. In the estimation of Agan’s Management based on the opinion of its legal advisors, the claim's chances are remote. No provision has been included in the financial statements in respect of this claim.

(5) A criminal complaint has been filed against Makhteshim and one of its managers by the Man, Nature and Law Amuta (Society). In the charge sheet, it is stated that in a number of cases during 1999–2002, discharges of materials were measured in the exhaust vents in Makhteshim's factory in Ramat Hovav in forbidden concentrations which created strong pollution. Makhteshim does not admit to the allegations stated in the complaint.
In the estimation of Makhteshim and its legal advisors, in light of the early stage of the proceedings, it is not possible to predict the results of the complaint and/or the related exposure and, therefore, no provision has been recorded in the books in respect thereof.

(6) A number of other claims have been filed against Agan, the total amount of which is US$ 3.5 million, in respect of damages which, according to the plaintiffs, were caused due use of Agan's products, breach of agreement to market a product, supply of a faulty product, as well as in connection with additional claims.
In Agan’s estimation, based on the opinion of its legal advisors, with respect to some of these claims the chances of defense are good, while regarding some of the claims it is not possible, at this stage, to predict their outcome. Accordingly, no provisions have been recorded on the books in connection with these claims.

(7) A number of other claims have been filed against Makhteshim, the total amount of which is US$ 1.4 million, in respect of damages which, according to the plaintiffs, were caused by, among other reasons, use of its products as well as a claim of a supplier which provided the planning work with respect to construction of the plant in Ramat Hovav.
In Makhteshim’s estimation, based on the opinion of its legal advisors, with respect to some of these claims the chances of defense are good or the provisions included in the books are adequate. With respect to claims regarding which it is not possible, at this stage, to predict their outcome, no provisions have been included in the financial statements.

Note 19 - Commitments and Contingent Liabilities (cont'd)

E. Guarantees

(1) The Company has guaranteed the liabilities to banks of a subsidiary without any limitation as to amount. As at the balance sheet date, the outstanding liabilities of the subsidiary to the banks totaled US$ 51 million.

(2) The Company has guaranteed the liabilities to banks and suppliers of subsidiaries, the amount of which as at the balance sheet date totaled US$ 42 million.

(3) Makhteshim and Agan have guaranteed the liabilities to banks of subsidiaries in the amount of US$ 15 million.

(4) Foreign suppliers and banks have provided credit lines in the approximate amount of US$ 137 million to foreign subsidiaries and to one subsidiary in Israel relying upon, among other things, the commitments of Makhteshim and Agan as to their proper fiscal management and the policies of Makhteshim and Agan to take steps that will enable those companies to meet their obligations. The amount of the credit lines utilized as at December 31, 2004, amounted to approximately US$ 91 million.

(5) The Company and Milenia committed to indemnify financial institutions, upon the existence of certain conditions, in respect of credit received by Milenia’s customers from those financial institutions, which were used for repayment of the debts of such customers to Milenia in respect of its sales to those customers. The amount of the commitment for indemnification, as at the balance sheet date, was approximately US$ 98 million, of which approximately US$ 80 million was a commitment for indemnification of Milenia and approximately US$ 18 million was a commitment for indemnification of the Company and Milenia (December 31, 2003 – approximately US$ 85 million, of which approximately US$ 55 million was a commitment for indemnification of Milenia and approximately US$ 30 million was a commitment for indemnification of the Company and Milenia).

Note 20 - Liens and Collaterals

A. Following are details of collateralized liabilities to banks:

	December 31 2004
	US$ thousands
Current liabilities	-
Long-term liabilities (including current maturities)	**78,632**

As collateral for the above liabilities, a subsidiary has registered a mortgage on land and buildings, and other subsidiaries have registered a first degree charge on assets including machinery and equipment, share capital and intangible assets.

- A foreign subsidiary has deposited with banks, documents for collection amounting to US$ 17 million and other foreign subsidiary companies have registered charges on some of their assets.

- The Company and its Israeli subsidiaries have made commitments to banks not to register charges on their assets in favor of other parties, except specific liens for acquisition of an asset for the benefit of the party financing the acquisition on certain terms and subject to the giving of notification to the bank, and except for creation of liens related to receipt of investment grants, as stated in Section B, below.

  In addition, the Company committed not to transfer or sell any one of its assets (except for sales in the Company's ordinary course of business and at customary market terms, including sale of trade receivables), without obtaining the bank's written consent in advance, except for the following:

  (a) Transfer to a subsidiary which did not create and will not create general liens and which commits not to pledge or sell the pledged assets without obtaining the bank's consent in advance.

  (b) Sale or transfer of assets, the value of the Company's interest in which does not exceed US$20 million for any particular year and provided that the cumulative value of the total assets to be transferred or sold will not exceed US$ 60 million.

- Regarding bank deposits which serve as the sole security for repayment of loans taken by a subsidiary from that bank – see Note 8B(2).

B. As collateral for the fulfillment of the requirements in respect of investment grants received (see Note 17A), the Company and its subsidiaries have registered floating charges in unlimited amounts on all of their assets and have provided an unlimited guarantee in favor of the State of Israel.

Note 20 - Liens and Collaterals (cont'd)

C. The Company and it's subsidiary have committed to banks to maintain financial criteria, the main ones of which are as follows:

- The ratio of the interest-bearing financial liabilities to shareholders' equity shall not exceed 1.0.
- The ratio of the interest-bearing financial liabilities to income before financing expenses, taxes, depreciation and amortization (EBITDA) shall not exceed 3.3 (in subsidiary - 4).
- The shareholders' equity will not be less than US$ 720 million.

In the opinion of the management of the Company and it's subsidiary, as at the balance sheet date the company and it's subsidiary are in compliance with the aforementioned financial ratios.

Note 21 - Shareholders' Equity

A. Share capital

	December 31		
	2004-2003	2004	2003
	Number of shares		
	Authorized	Issued and paid-up	
Ordinary shares of NIS 1 par value	**500,000,000**	**402,088,045**	**377,916,876**

All of the shares are registered for trading on the Tel Aviv Stock Exchange.

B. Employee stock options

1. On April 23, 2001 (hereinafter – the determining date), the Company's Board of Directors resolved to grant options to employees of the Company and to employees of its subsidiaries. In accordance with this plan, the said employees will be allotted 17,400,000 option warrants which are exercisable for up to 17,400,000 ordinary shares of a par value of NIS 1 each, of the Company, at an exercise price of US$ 1.882 as at the balance sheet date after adjustments made to all options due to a dividend distribution (the market value of a share as of April 22, 2001 was NIS 8.12).

   All options warrants are to be issued to a trustee pursuant to the plan. The options were issued in accordance with Section 102 of the Income Tax Ordinance and the shares to be issued on the exercise thereof will be held by the trustee for a period of at least two years from the date of issuance of the options.

   Eligibility to receive the option warrants, subject to the terms of the plan, is in three portions, as follows: One third on the determining date, an additional third after the elapse of one year from the determining date and the balance after the elapse of two years from the determining date.

Note 21 - Shareholders' Equity (cont'd)

B. Employee stock options (cont'd)

The options of each portion can be exercised after the elapse of one year from the date of entitlement, and they expire after the elapse of five years from the date of the beginning of the exercise period of each portion.

Pursuant to the option plan, at the time of exercise of the options the Company will issue shares in a number which reflects the amount of the monetary benefit inherent in the option, that is, the difference between the regular price of a Company share on the exercise date and the exercise price of the option.

Under this plan, the CEO of the Company will be allotted 1,400,000 option warrants exercisable into 1,400,000 ordinary shares of a par value of NIS 1 each of the Company, which constitute 8% of the total amount of options to be granted under the plan.

In 2003, 7,361,923 options were exercised by Company employees for 2,551,247 of the Company's ordinary shares of NIS 1 par value each.

In 2004, 4,159,719 options were exercised by Company employees for 2,505,938 of the Company's ordinary shares of NIS 1 par value each.

Subsequent to the balance sheet date and proximate to the date of authorization of the financial statements, approximately 262 thousand options were exercised by Company employees for 171 thousand of the Company's ordinary shares of NIS 1 par value each.

2. On April 14, 2003 (hereinafter – "the determination date"), the Company's Board of Directors resolved to adopt an employee compensation plan for the employees of the Company and its subsidiaries and for their directors (hereinafter – "the Plan"), pursuant to which 17,000,000 options will be issued to the employees, which are exercisable for up to 17,000,000 of the Company's ordinary shares of NIS 1 par value each, at an exercise price of NIS 7.72 as at the balance sheet date after adjustments made due to a dividend distribution (the closing share price of the Company's shares on the stock exchange on the Determination Date, was NIS 9.13 per share).

All of the options will be issued under Section 102 of the Income Tax Ordinance. The options issued and the shares issued upon the exercise thereof, will be held by a trustee for a period of at least two years from the end of the year in which the options are issued.

In accordance with the Plan, at the time of exercise of the options, the Company will issue shares in an amount which reflects the amount of the monetary benefit implicit in the options, that is, the difference between the price of an ordinary share of the Company on the exercise date and the exercise price of the option.

In the framework of the Plan, Company employees who were issued options under the Company's prior employee compensation plan, which was adopted on April 23, 2001 (hereinafter – "the Prior Plan") were offered to convert the options issued to them under the Prior Plan into 12,180,000 options under the Plan. The offer was not accepted by any of the Company's employees.

Note 21 - Shareholders' Equity (cont'd)

B. Employee stock options (cont'd)

2. (cont'd)

The right to exercise the options, with respect to offerees who are not included with those who received options under the Prior Plan and are converting them to options issued under the Plan, is in three increments, as follows: one-third at the end of one year from the Determination Date, an additional one-third at the end of two years from the Determination Date and the balance at the end of three years from the Determination Date. The expiration date of the options is five years from the beginning of the exercise period of each increment.

In the framework of the Plan, the former CEO of the Company was entitled to convert the options issued to him pursuant to the Prior Plan into 980,000 options pursuant to the Plan, which are exercisable for up to 980,000 of the Company's ordinary shares of NIS 1 par value each and which constitute 5.8% of the total options issued in the framework of the Plan. The Company's former CEO did not convert the options.

In addition, in the framework of the Plan, the Company's CEO was issued 1,600,000 options which are exercisable for up to 1,600,000 of the Company's ordinary shares of NIS 1 par value each and which constitute 9.4% of the total options issued in the framework of the Plan.

In addition, in the framework of the Plan, the Company's directors were issued a total of 1,800,000 options which constitute 10% of the total options issued in the framework of the Plan.

In 2004, 1,420,000 options were distributed to Company directors and employees.

In 2004, 105,663 options were exercised by Company employees for 64,746 of the Company's ordinary shares of NIS 1 par value.

Subsequent to the balance sheet date and proximate to the date of authorization of the financial statements, Company employees exercised 8,000 options for 5,000 of the Company's ordinary shares of NIS 1 par value.

3. Subsequent to balance sheet date, on March 8, 2005, the Company's Board of Directors resolved to adopt a new stock option plan for the officers and employees of the Company and its subsidiaries. Pursuant to the plan they will be issued up to 20,000,000 options exercisable into up to 20,000,000 ordinary shares of the Company of a par value of NIS 1 each, of which up to 3,000,000 options will be issued to the Company's CEO and directors.

Regardless of the aforementioned, the assumption regarding the full exercise of the options is purely theoretical, since the offerees that exercise the options will not actually be issued the full amount of the shares deriving from them, but only shares in an amount which reflects the amount of the monetary benefit implicit in the options, that is, the difference between the price of an ordinary share of the Company on the exercise date and the exercise price of the option.

The options are offered to the offerees at no cost. The options will be issued to the offerees in three equal portions, with the vesting period of the first portion of the plan beginning after the third and last vesting period of the employee stock option plan from 2003 (meaning after April 14, 2006).

Note 21 - Shareholders' Equity (cont'd)

B. Employee stock options (cont'd)

3. (cont'd)

The exercise price is NIS 25.10, which is equal to the opening price of the Company's share on the stock exchange when the decision was made by the Company's Board of Directors (March 8, 2005).

The options of the plan will be issued to the offerees according to the provisions of Section 102 of the Income Tax Ordinance under the capital track.

The issuance under this plan is subject to the publication of all the reports required by the Securities Law – 1968 and its related regulations, the Company's General Meeting approving the issuance of the options to directors, the Income Tax Commission approving the issuance being executed according to the provisions of Section 102 under the capital track and the Stock Exchange approving registration for trading of the shares issued upon exercise of the options.

C. Acquisition of Company shares by a subsidiary

As at December 31, 2003, a subsidiary holds 7,017,152 of the Company's shares.

In March 2004, a subsidiary transferred to a third party, in an off-market transaction, 7 million shares of the Company which it held. Pursuant to the agreement, the consideration will be paid by the end of one year from the transfer date, whether in cash, linked to the share price at the same date on the stock market, or in Company shares plus 0.5% of price of the shares on the stock market. Since the consideration has not yet been received in cash, issuance of the shares in respect of the shares transferred has not yet been recorded.

During the second quarter, 1,908 thousand of the aforementioned shares were returned, for purposes of payment of the consideration in respect of acquisition of a group of companies in the United States, as stated in Note 7D(1)a above.

As at the balance sheet date, the subsidiary holds 5,108,755 of the Company's shares, which constitute 1.3% of the Company total issued and paid-up share capital.

Regarding acquisition of Mabeno, subsequent to the balance sheet date, in exchange for transfer of shares of an investee company by a subsidiary – see Note 7D(2).

Note 21 - Shareholders' Equity (cont'd)

D. Dividend distribution policy

On April 23, 2001, the Company's Board of Directors resolved to adopt a dividend policy at rates of between 15% and 30% of net annual income, beginning from 2001. In accordance with this policy an interim quarterly dividend will be distributed. The amount of the dividend will be calculated according to the net income for the quarter and will be within the limits specified above. This interim dividend will be considered as an advance on account of the annual dividend.

Application of the policy is subject to there being sufficient income for distribution on the relevant dates, to the provisions of any law regarding dividend distribution, to specific decisions of the Company's Board of Directors in respect of each distribution and to any other decision the Board of Directors is permitted to make at any time, including regarding a different designation of the Company's earnings and a change in this policy.

In March 2004, the Company's Board of Directors decided to distribute a dividend in respect of the earnings of 2003, in the amount of US$ 7,200 thousand.

During 2004, the Company's Board of Directors decided to make three interim dividend distributions, in the total amount of US$ 36,900 thousand.

Subsequent to the balance sheet date, the Company's Board of Directors decided to distribute a dividend in the amount of US$ 12,700 thousand.

E. Convertible debentures and options (Series 1)

Regarding the convertible debentures and the options (Series 1) issued in the framework of a prospectus from November 2001 – see Note 15A.

In the year of account, 4,018,625 options (Series 1) were converted into 4,018,625 ordinary shares of NIS 1 par value, based on a conversion rate of 10.03 per share. The total share capital issued as a result of the conversion was US$ 913 thousand, at a premium of US$ 9,637 thousand.

Subsequent to the balance sheet date and proximate to the date of authorization of the financial statements, 909 thousand options were converted into 909 thousand ordinary shares of NIS 1 par value.

Regarding conversion of the debentures – see Note 15B(4).

Note 22 - Linkage Terms of Monetary Balances

Consolidated

	In or linked to US dollars	In Euro	In Brazilian reals	In or linked to another currency	In Israel currency	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
December 31, 2004						
Assets:						
Cash and cash equivalents	10,751	14,799	3,418	10,624	885	40,477
Short-term investments	-	603	-	160	800	1,563
Trade and other receivables	126,638	74,775	136,831	51,673	32,820	442,737
Long-term investments, loans and other receivables	1,710	328	15,715	1,239	2,353	21,345
	139,099	90,505	155,964	63,660	36,858	486,122
Liabilities:						
Credit from banks	90,949	11,350	1,814	5,974	2,892	112,979
Trade and other payables	158,430	146,850	64,328	54,287	90,527	514,422
Proposed dividend	11,200	-	-	-	-	11,200
Long-term bank loans and other (including current maturities) and long-term liabilities	112,319	9,331	-	6,204	1,548	129,402
Liability for employee severance benefits, net	78	481	310	105	25,735	26,709
	372,976	168,012	66,452	66,570	120,702	794,712
December 31, 2003						
Assets:						
Cash and cash equivalents	27,662	8,392	4,457	6,875	2,463	49,849
Short-term investments	1,034	39	-	27	-	1,100
Trade and other receivables	74,126	98,078	91,149	48,061	28,500	339,914
Long-term investments, loans and other receivables	5,485	333	7,699	2,517	435	16,469
	108,307	106,842	103,305	57,480	31,398	407,332
Liabilities:						
Credit from banks	52,883	19,035	2,408	4,733	543	79,602
Trade and other payables	83,708	147,209	40,562	32,606	81,694	385,779
Proposed dividend	7,000	-	-	-	-	7,000
Long-term bank loans and other (including current maturities)	313,548	9,586	1,880	7,271	2,633	334,918
Liability for employee severance benefits, net	246	134	324	24	24,046	24,774
	457,385	175,964	45,174	44,634	108,916	832,073

With respect to futures transactions in foreign currency, see Note 32.

Note 23 - Revenues

Consolidated

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Foreign sales –			
Industrial	**1,351,450**	1,001,435	732,085
Commercial	**85,007**	89,303	77,628
	1,436,457	1,090,738	809,713
Domestic sales –			
Industrial	**47,461**	40,268	34,232
Commercial	**55,784**	46,249	46,918
	103,245	86,517	81,150
	1,539,702	1,177,255	890,863
Foreign sales by geographic area:			
Latin America	**428,638**	308,628	248,756
Europe	**649,859**	525,851	350,430
North America	**198,035**	142,280	117,450
Far East	**55,467**	41,398	37,931
Africa and Australia	**104,458**	72,581	55,146
	1,436,457	1,090,738	809,713

Note 24 - Cost of Sales

Consolidated

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Industrial:			
Materials	**674,675**	443,565	363,144
Labor	**71,534**	63,606	59,932
Subcontractors	**5,822**	6,286	9,050
Other manufacturing expenses	**111,624**	83,611	62,548
Depreciation	**25,891**	24,571	22,864
	889,546	621,639	517,538
Less – expenses capitalized to fixed assets (mainly engineering salaries)	**848**	958	988
Change in work in progress and finished products inventories	**(43,246)**	(7,528)	(52,440)
	845,452	613,153	464,110
Commercial:			
Cost of merchandise sold	**98,456**	117,152	100,653
	943,908	730,305	564,763

Note 25 - Research and Development Expenses, Net

Consolidated

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Payroll and related expenses	**10,508**	9,868	9,633
Materials	**267**	1,210	931
Other expenses	**9,758**	6,738	5,601
	20,533	17,816	16,165
Less –			
Government participation in R&D expenses	**1,053**	996	990
	19,480	16,820	15,175

Note 26 - Selling and Marketing Expenses

Consolidated

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Payroll and related expenses	**52,460**	37,678	30,547
Commissions and delivery costs	**70,480**	51,268	42,055
Advertising	**14,049**	9,957	5,043
Depreciation and amortization	**24,685**	20,916	15,806
Registration	**11,504**	7,568	6,170
Professional services	**6,263**	6,069	3,315
Insurance to the Chief Scientist	**6,474**	5,746	3,688
Royalties	**4,758**	2,802	2,483
Other	**29,539**	21,832	19,879
	220,212	163,836	128,986

Note 27 - General and Administrative Expenses

Consolidated

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Payroll and related expenses	**24,743**	22,549	17,687
Administrative services and directors' fees to Koor	**2,557**	2,676	2,548
Depreciation and amortization	**3,359**	3,446	3,577
Bad and doubtful accounts	**11,481**	7,752	2,655
Professional services	**12,058**	6,756	6,770
Insurance	**1,925**	950	1,262
Other	**10,792**	9,770	8,304
	66,915	53,899	42,803

Note 27 - General and Administrative Expenses (cont'd)

Company

	For the year ended December 31		
	2004	2003	2002
	US$ thousands	US$ thousands	US$ thousands
Payroll and related expenses	**6,073**	7,401	2,713
Administrative services and directors' fees to Koor	**2,557**	2,676	2,548
Depreciation and amortization	**269**	276	234
Professional services	**3,607**	1,234	2,112
Other	**2,865**	2,340	1,385
	15,371	13,927	8,992

Note 28 - Financing Expenses, Net

Consolidated

	For the year ended December 31		
	2004	2003	2002
	US$ thousands	US$ thousands	US$ thousands
In respect of long- term liabilities, net	**17,885**	17,604	13,804
In respect of short- term liabilities and credit, net	**9,686**	20,352	23,417
Less - Interest capitalized to fixed assets	**-**	-	2,815
Financing expenses, net	**27,571**	37,956	34,406

Company

	For the year ended December 31		
	2004	2003	2002
	US$ thousands	US$ thousands	US$ thousands
Expenses: (*)			
In respect of long-term liabilities	**5,193**	3,815	4,074
In respect of short-term liabilities and credit	**-**	936	1,217
	5,193	4,751	5,291
Less:			
Financing income	**10,229**	5,349	7,017
Financing income, net	**5,036**	598	1,726

* See Note 32C.

Note 29 - Other Expenses, Net

Consolidated

	For the year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Expenses with respect to devaluation of the currency and bad debts in Argentina (Note 32C)	**-**	-	10,886
Expenses in respect of early retirement of employees and payment of early pension benefits	**4,802**	6,721	4,055
Expenses relating to sale of trade receivables as part of securitization transaction	**1,825**	-	-
Loss on sale of trade receivables as part securitization transaction	**4,374**	3,850	4,366
Loss on sale of fixed assets and other, net	**1,099**	858	331
Provision for loss with respect to options granted to employees of subsidiaries	**2,090**	330	-
Amortization of goodwill in investee companies	**14,396**	9,826	8,179
Amortization of goodwill on acquisition of products	**10,164**	11,782	4,557
Write-off of fixed and other assets	**2,555**	2,667	-
Sundry expenses (income), net	**1,430**	2,211	(604)
	42,735	38,245	31,770

Note 30 - Transactions and Balances with Related and Interested Parties

A. Transactions with interested parties

(1) In the ordinary course of business, Group companies conduct transactions with entities that are related parties (principally, sales of the companies' products and purchases of raw materials and services). It is impracticable to identify the abovementioned related parties and to separately record these transactions in the accounting records. Therefore, the Securities Authority has exempted the Company from providing details of immaterial transactions involving acquisitions and sales of goods and services at market value that the Company is likely to execute in the normal course of its business with Bank Leumi LeIsrael Ltd., Bank Hapoalim Ltd. and their investee companies. In any event, the Company is required to disclose any unusual transactions.

(2) On April 1, 2000, the Company signed an agreement with Koor according to which the Company will pay Koor $2.5 million per year for consulting and management services to be rendered by Koor to the Company. The agreement was effective up to May 2003. The agreement was extended for additional three years, effective from May 2003 (see Note 27).

In addition, the Company pays directors' fees to Koor Industries Ltd. in amounts identical to those paid to public directors, see B., below. Regarding payments made to Koor – see Section A(10), below.

Note 30 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

(3) The Company has an agreement covering management fees with Agan and Makhteshim according to which Agan and Makhteshim paid management fees at the rate of 1% of the annual revenues. In 2003, this agreement was revised for management fees at the rate of 1.8% of the annual revenues. In 2004, Makhteshim and Agan paid management fees to the Company amounting to US$ 13.5 million (2003 – US$ 10.0 million, 2002 – US$ 9.2 million).

(4) The Company entered in an agreement with the former CEO of Milenia (who is a director of the Company), covering non-competition and confidentiality, pursuant to which on April 30, 2002 (shortly after the termination of his service as Milenia's CEO), he received 1,000,000 of the Company's shares in consideration for his agreement not to compete with the Company and to protect all the Company's confidential information, provided that up to this time he complies with his obligation as stated.

The agreement is valid for a period up to the later of July 2007 or the end of 3 years from the date on which he ceases to serve as CEO, director or other position in the one of the Group companies.

(5) In November 2002, the Company's Board of Directors decided to appoint a new CEO who took up his position in May 2003.

The Company entered into an employment agreement with the new CEO, pursuant to which the CEO will serve in his position for an unlimited period, unless one of the parties gives notice of its wish that the employment shall not be continued, by means of an advance notice of three months.

In a case of transfer of control of the Company up to July 1, 2005, where as a result the CEO's employment is discontinued, in circumstances under which he is entitled to severance benefits pursuant to law, the CEO is entitled to an annual salary, including the accompanying benefits.

(6) A subsidiary has an agreement with STIM Holdings (1991) Ltd., a company owned by a shareholder who served as a director of the Company until September 2003, which was extended up to September 30, 2004, according to which his company will supply to the subsidiary management and business organization services, for a consideration of NIS 60,000 per month plus linkage differences based on the CPI for December 2001. In July 2004, the aforesaid shareholder ceased being an interested party.

(7) A subsidiary has an agreement with S.H.M. Ltd., a company owned by a shareholder who served as a director of the Company until September 2003, which was extended up to September 30, 2004, according to which his company will supply to the subsidiary management and business organization services, for a consideration of NIS 60,000 per month plus linkage differences based on the CPI for December 2001. In July 2004, the aforesaid shareholder ceased being an interested party.

Note 30 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

(8) Regarding insurance and indemnification of interested parties – see Note 19(A)(1) and (2).

(9) Transactions between Makhteshim and Agan with Koor and its subsidiaries, are made in the regular course of business and on usual business terms. Set forth below are details of the transactions:

Consolidated

	For the year ended December 31		
	2004	2003	2002
	US$ thousands	US$ thousands	US$ thousands
Management services and directors fees to Koor	**2,557**	2,676	2,548
Other related parties:			
Revenues -	**5,638**	7,542	5,626
Expenses -			
Selling	**1,863**	1,593	1,439
Financing	**-**	-	29

B. Benefits to interested parties

	For the year ended December 31		
	2004	2003	2002
	US$ thousands	US$ thousands	US$ thousands
Fees to interested parties employed by the Group (*)	**1,147**	*3,656	1,179
Number of interested parties	****4**	5	4
Fees to directors appointed by Koor Industries Ltd.	**57**	176	48
Number of directors	**4**	5	4
Fees to other directors	**75**	57	58
Number of directors	**6**	5	5

(*) Including settlements in respect of employee severance benefits with the Company's former CEO.

Regarding options issued to the Company's present and former CEOs, see Note 21B.

(**) In July 2004, two of the four directors ceased being interested parties - see paragraphs A7 and A8 above.

Note 30 - Transactions and Balances with Related and Interested Parties (cont'd)

C. Balances with related and interested parties

Consolidated

	December 31 2004	December 31 2003
	US$ thousands	US$ thousands
Trade receivables [(1)] – Related parties	**3,403**	4,062
Trade payables – Related parties	**445**	410
Other payables Koor Industries Ltd.	**748**	753
Severance pay fund administered by related companies	**2,331**	2,126
(1) Highest balance during the year – trade receivables	**3,403**	4,062

Bank Hapoalim Ltd. and Bank Leumi Ltd. are related parties of the Company due to their holdings in the Company through mutual funds and provident funds which they manage. Financing transactions with these parties are conducted in the ordinary course of business under normal commercial terms.

Note 31 - Earnings per Share

Share capital and net income used as the basis for the computation of basic earnings per share are as follows:

	For the year ended December 31		
	2004	2003	2002
Weighted-average par value of share capital (in thousands)	**432,776**	410,373	361,815
Net income used for the computation (US$ thousands)	**166,900**	105,809	60,078
Interest rates used in computing earnings per share (linked to the US dollar)	**2.5%**	1.0%	2.5%

Note 31 - Earnings per Share (cont'd)

Share capital and net income used as the basis for the computation of fully diluted earnings per share are as follows:

	For the year ended December 31		
	2004	**2003**	**2002**
Weighted-average par value of share capital (in thousands)	**457,548**	427,772	433,215
Net income used in computing earnings per share (US$ thousands)	**168,817**	106,118	64,112
Interest rates used in computing earnings per share (linked to the US dollar)	**2.5%**	1.0%	2.5%

Note 32 - Financial Instruments and Risk Management

A. General

The Group has extensive international operations, and, therefore, it is exposed to risks that derive from exchange rate fluctuations, and to changes in interest rates, in respect of credit received. In order to reduce the overall exposure to those risks, the Group uses financial instruments, including derivative instruments and options (hereinafter – "the Derivatives"). The Group does not hold financial instruments for trading purposes.

Transactions in derivatives are undertaken with major financial institutions in Israel and abroad and, therefore, in the opinion of Group Management the credit risk in respect thereof is low.

B. Exchange rate risk management

The Group uses foreign currency derivatives - forward transactions and option contracts - in order to hedge the risk that the dollar cash flows, which derive from existing assets and liabilities and anticipated sales and costs, may be affected by exchange rate fluctuations.

Subsidiaries execute swap transactions in order to reduce the exposure to exchange rate fluctuations. In 2004 a subsidiary entered into transactions with banks for swapping dollar liabilities (loans and supplier credit) amounting to a principal of $ 60 million with liabilities in Brazilian reals at a variable interest rate of a weighted average of 6%. The transactions will expire in 2005.

In 2004 another subsidiary and a bank entered into transactions swapping a long-term loan denominated in Colombian pesos with a variable interest of 7.7% amounting to a principal of 13 million pesos with a dollar loan bearing variable interest of the Libor rate minus 0.1%. The transactions expire in semi-annual amounts until the end of 2006.

Note 32 - Financial Instruments and Risk Management (cont'd)

B. Exchange rate risk management (cont'd)

As at the balance sheet date, the Company and its subsidiaries had open forward exchange contracts, which are intended to hedge exposure with respect to assets and liabilities in foreign currency, as described below:

	Futures transactions	Foreign-currency options purchased	Foreign-currency options sold
Acquisition of dollars in exchange for:			
Shekels	6.0	4.0	21.5
Pounds sterling	6.3	27.5	7.9
Euro	-	236.3	14.0
Brazilian reals	3.5	10.0	10.0
South African rands	6.2	3.1	-
Japanese yen	2.3	2.4	1.3
Australian dollars	2.0	17.6	-
Swiss francs	-	-	6.9
Polish zloty	6.5	11.5	1.0
Korean Yuan	-	-	40.0
Swedish krona	-	-	3.0
	32.8	312.4	105.6

	Futures transactions	Foreign-currency options purchased	Foreign-currency options sold
Sale of dollars in exchange for:			
Shekels	-	26.5	20.5
Pounds sterling	-	2.0	23.6
Euro	6.6	32.1	269.6
Swedish krona	-	3.0	1.5
South African rands	-	-	3.1
Japanese yen	-	1.4	2.5
Australian dollars	-	-	16.6
Swiss francs	-	7.0	3.6
Polish zloty	-	-	11.5
Korean Yuan	-	40.0	-
	6.6	112.0	352.5

Note 32 - Financial Instruments and Risk Management (cont'd)

C. Credit risks

General

The Group's revenues are derived from a large number of geographically-dispersed customers in many different countries. Customers include multi-national companies and manufacturing companies, as well as distributors, agriculturists and agents of plant protection chemicals manufacturers who purchase the products either as finished goods or as intermediate products in relation to their own requirements.

The agricultural sector to which most of the Group's products are directed, is characterized by lengthy periods of credit.

The financial statements contain specific provisions for doubtful debts, which properly reflect in management's estimate, the loss inherent in debts, the collection of which is in doubt. In addition, up to June 2004, the Company insured its trade receivables by means of credit insurance in a joint policy with the entire Makhteshim-Agan Group. Pursuant to the policy, the aggregate amount of credit insurance for the entire Group is an annual cumulative amount of US$ 25 million. The insurance indemnification is limited to 90% of the debt per event. The terms of the insurance policy require the implementation of a credit control system for the entire Group which is required to operate in accordance with procedures stipulated in the insurance policy. Commencing from July 2004, the Company discontinued the said insurance because of it not being worthwhile.

Subsequent to balance sheet date, a subsidiary in Brazil purchased a credit insurance policy which insures deliveries made in Brazil as of January 1, 2005. The indemnity of the insurer is limited to 85% of the debt per event in respect of the insured customers. The total amount of insurance is anticipated to amount to an overall amount of US$ 20 million per year.

Economic Crisis in Argentina

A serious deterioration in the political and economic situation in Argentina began in December 2001, and a situation of paralysis of the political and economic systems in the country has developed, together with almost complete uncertainty as to the future, followed by a temporary discontinuation of foreign currency trading. In January 2002, the Congress empowered the President to execute a devaluation of the Argentine Peso as against the dollar (to which the Peso was linked under the law for a period of about ten years). Following approval by Congress, the Argentine Government declared a devaluation of 29% (namely, Peso 1.4 for US$ 1).

During February 2002, the law was changed in Argentina providing for total flexibility in the rate of exchange, and that the exchange rate of 1.4 to the dollar applying to importers and exporters no longer exists. Foreign currency trading was resumed on January 11, 2002, and the exchange rate was fixed at Peso 1.7 = US$ 1. This rate is the applicable rate at December 31, 2001. As a result of the devaluation, the assets of the subsidiary in Argentina (mainly trade and other receivables) were eroded by US$ 15 million. Furthermore, in view of the economic and political situation in the country in 2001, the subsidiary in Argentina recorded a one-time write-off of US$ 8 million, mainly in respect of bad debts.

In 2002, the severe economic crisis in Argentina continued. The Peso was devalued by additional 98% (from the rate of US$ 1 = Peso 1.7, at December 31, 2001, to US$ 1 = Peso 3.37, at December 31, 2002).

In March 2002, the Argentine government issued Regulation 10/02 to the Conversion Law, pursuant to which trade receivables resulting from the sale of agricultural inputs, are to be paid on the basis of the same exchange rate applying to the consideration received from the export sale of the agricultural products in respect of which those inputs were used.

Note 32 - Financial Instruments and Risk Management (cont'd)

C. Credit risks (cont'd)

In July 2002, the Argentine government issued Regulations 143/02 and 24/02, which cancel Regulation 10/02 and which provide the various rates for linking customer debt to the dollar in such a manner that trade receivables resulting from the sale of agricultural inputs denominated in dollars, are to be paid on the basis of the dollar exchange in effect on the date of payment, less a discount at rates between 25%–60%, in accordance with those products which used the agricultural inputs as detailed in these Regulations.

Due to the devaluation and the continuing economic crisis in Argentina, and in light of the accumulated experience regarding application of Regulations 143/02 and 24/02, in 2002, the subsidiary included an additional provision, in the amount of US$ 10.8 million, with respect to bad debts and erosion of its assets in Argentina.

In the estimation Company Management, after the additional write-downs made in 2001 and 2002, no further material effect is expected on the results of operations and the financial position of the subsidiary in Argentina.

The Company and the subsidiaries are guarantors for the subsidiary's liabilities to banks in Argentina, in the aggregate amount of approximately US$ 10 million.

D. Currency risks

As at December 31, 2004, monetary assets in excess of monetary liabilities in Brazilian reals amounted to approximately US$ 90 million, monetary assets in Israeli shekels in excess of monetary liabilities in Israeli shekels amounted to approximately US$ 75 million, and monetary liabilities in excess of monetary assets in Euro amounted to approximately US$ 78.

The Group has taken measures to reduce the exposure in respect to this excess as described in Note B. above.

Regarding the linked balance sheet covering monetary balances – see Note 22.

E. Fair value of financial instruments

The Group's financial instruments consist of mainly non-derivative assets and liabilities, e.g.; cash and cash equivalents, investments in deposits, other receivables, long-term investments, short-term credit, payables, loans and other long-term liabilities, as well as derivatives.

In view of their nature, the fair value of financial instruments included in working capital is usually identical or close to their carrying amount. Also the fair value of deposits and long-term receivables and loans and other long-term liabilities is close to their fair value, as these financial instruments bear interest at rates which are close to the prevailing market rates.

Note 33 - Segment Information

A. Geographical segments according to location of assets

For the year ended December 31, 2004

	Israel	Latin America	Europe*	Adjustments	Consolidated
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Income					
Income from external sources	**937,769**	**337,123**	**264,810**	**-**	**1,539,702**
Inter-segment income	**95,558**	**13,084**	**25,722**	**(134,364)**	**-**
Total income	**1,033,327**	**350,207**	**290,532**	**(134,364)**	**1,539,702**
Segment results**	**146,996**	**56,764**	**61,260**	**(393)**	**264,627**
Additional information					
Assets utilized by the segment	**1,148,344**	**414,428**	**371,795**	**-**	**1,934,567**
Liabilities of the segment	**499,168**	**255,637**	**286,511**	**-**	**1,041,316**
Capital investments	**139,031**	**8,631**	**7,823**	**-**	**155,485**
Depreciation and amortization	**60,437**	**9,352**	**12,835**	**-**	**82,624**

* Mainly products manufactured by non-Group companies.

** Includes amortization of goodwill on the acquisition of products and amortization of goodwill and other assets arising on the acquisition of subsidiaries.

Note 33 - Segment Information (cont'd)

A. Geographical segments according to location of assets (cont'd)

For the year ended December 31, 2003

	Israel US$ thousands	Latin America US$ thousands	Europe* US$ thousands	Adjustments US$ thousands	Consolidated US$ thousands
Income					
Income from external sources	684,619	246,757	245,879	-	1,177,255
Inter-segment income	57,431	18,360	-	(75,791)	-
Total income	742,050	265,117	245,879	(75,791)	1,177,255
Segment results**	92,520	47,466	48,326	2,475	190,787
Additional information					
Assets utilized by the segment	977,530	342,542	334,832	6,461	1,661,365
Liabilities of the segment	417,921	211,166	288,523	43,778	961,388
Capital investments	47,685	9,300	6,316	-	63,301
Depreciation and amortization	51,022	12,413	12,238	-	75,673

* Mainly products manufactured by non-Group companies.

** Includes amortization of goodwill on the acquisition of products and amortization of goodwill and other assets arising on the acquisition of subsidiaries.

Note 33 - Segment Information

A. Geographical segments according to location of assets

For the year ended December 31, 2002:

	Israel	Latin America	Other	Adjustments	Consolidated
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Income					
Income from external sources	616,470	196,804	77,589	-	890,863
Inter-segment income	43,500	7,820	-	(51,320)	-
Total income	659,970	204,624	77,589	(51,320)	890,863
Segment results*	98,302	25,026	3,750	(678)	126,400
Additional information					
Assets utilized by the segment	1,055,519	323,230	244,807	-	1,623,556
Liabilities of the segment	590,604	213,214	206,175	-	1,009,993
Capital investments	278,215	12,174	1,270	-	291,659
Depreciation and amortization	46,048	9,309	2,748	-	58,105

* Includes amortization of goodwill on the acquisition of products and amortization of goodwill and other assets arising on the acquisition of subsidiaries.

– Regarding the breakdown of sales based on geographic area – see Note 23.

Note 33 - Segment Information (cont'd)

B. Business segments

	Year ended December 31		
	2004	**2003**	**2002**
	US$ thousands	**US$ thousands**	**US$ thousands**
Sales by products			
Plant protection products	**1,357,913**	1,034,702	775,563
Others (non-plant protection products)	**181,789**	142,553	115,300
	1,539,702	1,177,255	890,863

	December 31, 2004		December 31, 2003	
	Assets utilized by the sector	**Capital investments**	**Assets utilized by the sector**	**Capital investments**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment assets and capital investments				
Plant protection products	**1,722,458**	**133,188**	1,438,007	53,680
Others (non-plant protection products)	**212,109**	**22,297**	223,358	9,621
	1,934,567	**155,485**	1,661,365	63,301

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements

A. Material Differences between Israeli GAAP and US GAAP

The Company's consolidated financial statements conform with Israeli generally accepted accounting principles ("Israeli GAAP"), which differs in certain material respects from generally accepted accounting principles in the United States of America ("US GAAP") as described below:

1. Deferred taxes

a) Measurement differences

In accordance with Israeli GAAP:

Deferred taxes should be recognized in respect of differences related to assets and liabilities that result from translation of the local currency into the functional currency using historical exchange rates and that result from (1) changes in exchange rates or (2) indexing for tax purposes.

In accordance with US GAAP:

According to paragraph 9(f) of FAS No. 109, deferred tax liabilities or assets are not provided for differences related to assets and liabilities that are remeasured from the local currency into the functional currency and that result from (1) changes in exchange rates or (2) indexing for tax purposes.

b) Earnings from “Approved Enterprises”

Under the Israeli Law for the Encouragement of Capital Investments, 1959, an "approved enterprise" which chooses the “alternative benefits” track is exempt from income tax on undistributed profits.
In the event that a dividend is distributed out of tax-exempt earnings of the "approved enterprise" under the “alternative benefits” track, the distributing company will be subject to a 25% tax on the distributed earnings. Furthermore, the shareholders will be liable for tax at the rate of 15%. However, if the shareholder is a company, that shareholder will be entitled to a 15% tax credit, if and when such dividend out of "approved enterprise" earnings is distributed to its shareholders.

In accordance with Israeli GAAP:

Deferred taxes should not be provided in respect of the undistributed tax-exempt earnings of an "approved enterprise" of subsidiaries, whose earnings have been reinvested and will not be distributed to their shareholders.

The Company has not provided deferred taxes in respect of undistributed tax-exempt earnings attributed to the "approved enterprise" of subsidiaries, which may be distributed, since it is the Group's policy not to initiate such a dividend distribution.

In accordance with US GAAP:

Deferred taxes should be provided on the excess of the financial statement carrying value over the tax basis of an investment in domestic subsidiary as the company does not have any means under local tax law to recover this difference in a tax-free manner.

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Material Differences between Israeli GAAP and US GAAP (cont'd)

2. Share-based payments to employees

In accordance with Israeli GAAP:

No expense is recorded with respect to options granted to employees of the Company.

In accordance with US GAAP:

The Company issued stock appreciation rights that under APB 25 and FIN 28 should be accounted as variable options to employees relating to the future performance of work or services. In such cases, the benefit is charged to salary expense in the statement of income. The "benefit component" is measured as the difference between the market price of the share and the exercise price of the option at the end of each reporting period, and the proportional part of the period which has passed, in relation to amounts previously recorded at the beginning of that reporting period.

3. Financial derivatives

In accordance with Israeli GAAP:

The Company applies FAS 52, FAS 80 and EITF 90-17 to account for derivatives. Accordingly, the gains and losses on derivative instruments held for hedging purposes are recognized in the statement of income concurrently with gains or losses on the hedged assets. Certain derivative financial instruments, which are not intended for hedging purposes are presented in the balance sheet at their fair value. Changes in fair value are included in the statement of income in the period in which they occur.

In accordance with US GAAP:

All derivative instruments are recognized as either assets or liabilities in the balance sheet and are measured at fair value. Changes in the fair values of derivative instruments are recognized currently in earnings since the specific hedge accounting criteria are not met.

4. Goodwill

In accordance with Israeli GAAP:

Goodwill is amortized over its economic life but no more than 20 years. Goodwill is examined for a decrease in value where there are indications that there has been a permanent decrease in the value of the goodwill.

In accordance with US GAAP:

Goodwill balances is not amortized but is examined by means of an impairment test carried out at least once a year on a fixed date in accordance with the directives in FAS 142, where in the first year of implementation the impairment test was on January 1, 2002.

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Material Differences between Israeli GAAP and US GAAP (cont'd)

4. Goodwill (cont'd)

In accordance with US GAAP: (cont'd)

A two-step impairment test is used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss t be recognized (if any).
The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any.
The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to the excess.

5. Stock options issued by investee companies

In accordance with Israeli GAAP:

The Investor is required to create a provision for losses, which it may incur from the dilution of its holdings in investee companies, when it is probable that the securities will be converted.

In accordance with US GAAP:

A loss of the parent company resulting from the dilution of its holdings, because of securities being converted is recorded only at the time of the conversion.

6. Capitalization of licensing costs

In accordance with Israeli GAAP:

Certain costs incurred by the Company in connection with the registration process to obtain licenses to sell products in various jurisdictions are capitalized.
In addition, amounts which are paid by the Company to the original registrant as data compensation costs only after the EPA issues a registration to the Company are also capitalized.
The capitalized licensing costs are amortized over the expected benefit period.

In accordance with U.S. GAAP:

The costs incurred by the Company in connection with the registration process to obtain licenses to sell products in various jurisdictions are deemed development costs under U.S. GAAP and are expensed as incurred.
The amounts paid by the Company to the original registrant as data compensation costs only after the EPA issues a registration to the Company are capitalized and amortized over the expected benefit period.

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Material Differences between Israeli GAAP and US GAAP (cont'd)

7. Dividend Declared after the Balance Sheet Date

In accordance with Israeli GAAP:

Dividends declared subsequent to the balance sheet date are reflected as a deduction of retained earnings.

In accordance with US GAAP:

Dividends declared subsequent to the balance sheet date are deducted from retained earnings in the period in which the dividend was declared.

8. Liabilities for employee severance benefits

In accordance with Israeli GAAP:

Amounts funded by purchase of insurance policies and by deposits with recognized severance pay funds are deducted from the related severance pay liability, which is then presented at a net amount.

In accordance with US GAAP:

The amounts funded would be presented as other long-term assets and the amount of the liability would be presented under long-term liabilities.

9. Convertible debentures

In accordance with Israeli GAAP:

If a conversion of the debentures is expected, the debentures are presented in the balance sheet in a separate category between "long-term liabilities" and "shareholders' equity", whereas, if the conversion of the debentures is not expected they are presented in the balance sheet as part of "long-term liabilities".

In accordance with US GAAP:

All convertible debentures are presented in the balance sheet as part of "long-term liabilities".

10. Contingent consideration

In accordance with Israeli GAAP:

Contingent consideration in respect of acquisition of investee companies is recorded as part as the purchase cost when it is expected to be paid.

In accordance with US GAAP:

Contingent consideration is recorded as part of the purchase cost only when the payment probability is beyond any reasonable doubt which generally is the date that the contingency is resolved.

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

A. Material Differences between Israeli GAAP and US GAAP (cont'd)

11. Earnings per share:

In accordance with Israeli GAAP:

In accordance with Opinion No. 55 of the Institute of Certified Public Accountants in Israel, the dilutive effect of share options and convertible debentures is included in the computation of basic earnings per share only if their exercise or conversion is considered to be probable. Calculation of the probability is based on the ratio between the market price of the shares and the present value of the price of exercising the stock options into shares or the present value of the payments for conversion of the debentures into shares.

In accordance with US GAAP:

In accordance with FAS 128 "earnings per share" - basic earnings per share are computed on the basis of the weighted average number of shares outstanding during the year. Diluted earnings per share are computed on the basis of the weighted-average number of shares outstanding during the year, plus the dilutive potential effect of ordinary share options considered to be outstanding during the year using the treasury stock method.

12. Comprehensive income

In accordance with Israeli GAAP:

Presentation of comprehensive income and other comprehensive income is not required.
In accordance with US GAAP:

An enterprise (a) classifies items of other comprehensive income by their nature in the financial statements and (b) presents the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet.

13. Purchase of minority shares of Agan

In accordance with Israeli GAAP:

The purchase of minority shares of Agan in May 1998 (Note 1B) was accounted according to recorded amounts.

In accordance with US GAAP:

Under FTB 85-5 the purchase of the minority shares was accounted at fair value.

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

B. The effect of the material differences between Israeli and US GAAP on the financial statements

1. Statements of income:

a) Net income:

	Year ended December 31		
	2004	2003	2002
	US$ thousands		
Net income as reported, according to Israeli GAAP	165,527	102,774	60,078
Deferred taxes (A1)	(15,861)	(21,171)	(2,069)
Share-based payments to employees (A2)	(26,185)	(28,004)	-
Financial derivatives (A3)	(10,374)	(2,030)	(4,573)
Amortization of goodwill (A4)	10,569	5,277	8,178
Stock option issues by investee companies (A5)	1,760	330	-
Capitalization of licensing costs (A6)	(5,325)	(3,835)	(11,314)
	120,111	53,341	50,300
Income tax in respect of the above differences	3,736	2,790	3,389
Minority interest in respect of the above differences	(109)	(60)	(130)
Net income according to US GAAP	123,738	56,071	53,559

b) Earnings per ordinary share

	Year ended December 31		
	2004	2003	2002
	US$ thousands		
Basic earnings per ordinary share:			
As reported according to Israeli GAAP	0.39	0.26	0.17
As reported according to US GAAP	0.32	0.15	0.15
Weighted average of number of shares and share equivalents according to US GAAP	383,907	363,308	361,815
Fully diluted earnings per ordinary share:			
As reported according to Israeli GAAP	0.37	0.25	0.15
As reported according to US GAAP	0.28	0.14	0.13
Weighted average of number of shares and and equivalents according to US GAAP	446,098	401,109	399,071

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

B. The effect of the material differences between Israeli and US GAAP on the financial statements (cont'd)

2. Balance sheet:

	December 31, 2004			December 31, 2003		
	As reported	Adjustments	US GAAP	As reported	Adjustments	US GAAP
	US$ thousands			US$ thousands		
Other receivables[1]	**77,219**	**5,323**	**82,542**	54,538	3,872	58,410
Long-term investments, loans and receivables [4]	**22,070**	**15,957**	**38,027**	18,044	13,763	31,807
Intangible assets after amortization[2][3][6][10]	**527,420**	**26,161**	**553,581**	448,402	17,907	466,309
Other payables[3][5]	**192,405**	**14,685**	**207,090**	150,541	1,196	151,737
Deferred taxes, net[1]	**54,354**	**8,674**	**63,028**	43,778	(4,902)	38,876
Employee severance benefits, net[4]	**26,709**	**15,957**	**42,666**	24,774	13,763	38,537
Minority interest[7][12]	**18,756**	**(1,981)**	**16,775**	6,436	(330)	6,106
Capital reserve[8][9][10]	**(2,568)**	**128,993**	**126,425**	(5,393)	102,913	97,520
Proposed dividend subsequent to balance sheet date[11]	**12,700**	**(12,700)**	**-**	7,200	(7,200)	-
Retained earnings[12]	**345,841**	**(106,187)**	**239,654**	229,914	(69,898)	160,016
Shareholders' equity	**874,495**	**10,106**	**884,601**	693,541	25,815	719,356

(1) Change in deferred taxes.
(2) Reversal of systematic amortization related to goodwill.
(3) Reconciliation of additional goodwill related to contingent consideration.
(4) Reconciliation of deposits funded in respect of severance pay.
(5) Recognition of all derivatives at fair value.
(6) Capitalization of licensing costs.
(7) Elimination of provisions for potential losses resulting from dilution of holding in investee companies.
(8) Share options issued to employees.
(9) Cumulative foreign currency translation adjustments with respect to GAAP differences.
(10) Purchase of minority shares of Agan.
(11) Dividend declared subsequent to balance sheet date.
(12) Effects of the reconciliation to US GAAP.

Note 34 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements (cont'd)

B. The effect of the material differences between Israeli and US GAAP on the financial statements (cont’d)

3. Comprehensive income

“Comprehensive income” consists of the change, during the current period, in Company’s shareholder equity that does not derive from shareholders’ investments or from the distribution of income to shareholders.

Comprehensive income include two components - net income and other comprehensive income. Net income is the earning stated in the statement of operations and other comprehensive income include amounts recorded directly to shareholders’ equity that do not derive from transactions with shareholders.

	Year ended December 31		
	2004	**2003**	**2002**
	US$ thousands		
Net income according to US GAAP	**123,738**	56,071	53,559
Other comprehensive income, net of nil tax: Adjustments from translation of financial statements of investee companies	**2,825**	1,886	(3,700)
Total comprehensive income	**126,563**	57,957	49,859

Note 35 – Events (Unaudited) Subsequent to the Date of the Independent Auditors' Report.

1. Subsequent to the date of the Independent Auditors' Report and proximate to July 13, 2005, NIS 5,359 thousand par value debentures (Series A) were converted into 539 thousand of the Company's ordinary shares of NIS 1 par value, and US$ 133,650 thousand par value of the debentures that were allotted in March 2004 in a private placement to institutional investors (hereinafter - "The Debentures") were converted into 29,429 thousand shares of the Company's ordinary shares of NIS 1 par value. Furthermore, at the aforesaid period, 2,182 thousand options (Series 1) were exercised for 2,182 thousand of the Company's ordinary shares of NIS 1 par value.

2. Until December 31, 2004 it was not anticipated that The Debentures would be converted and accordingly they were presented according to their liability value as part of the long-term liabilities. Proximate to July 13, 2005, management of the Company believes that conversion of The Debentures is probable and accordingly the balance of The Debentures will be classified (together with the Series A debentures) at their liability value as a separate balance sheet item between the long-term liabilities and the shareholders' equity.

3. As described in Note 21B(3), on March 8, 2005, the Company's Board of Directors decided to adopt a new option plan for officers and employees of the Company and its subsidiaries. Pursuant to the plan, 14,900,000 option warrants exercisable into up to 14,900,000 ordinary shares of the Company of a par value of NIS 1 each were issued on March 14, 2005. Of these, 800,000 option warrants were issued to the CEO of the Company, 9,600,000 to the employees of the Company in Israel, 2,000,000 to the employees of the Company abroad and 2,500,000 were deposited with a trustee for future distribution.

4. Subsequent to the date of the Independent Auditors' Report and proximate to July 13, 2005, Company employees exercised approximately 714 thousand options granted in April 2001 (as described in Note 21B(1)) for 493 thousand of the Company's ordinary shares of NIS 1 par value each.

5. Subsequent to the date of the Independent Auditors' Report and proximate to July 13, 2005, Company employees exercised approximately 166 thousand options granted in April 2003 (as described in Note 21B(2)) for approximately 119 thousand of the Company's ordinary shares of NIS 1 par value.

6. In May 2005, the Company's Board of Directors resolved to distribute an interim dividend, in the amount of US$ 18.3 million, to be paid on September 1, 2005.

Rate of Control and Ownership in Subsidiaries as at December 31, 2004

A. Domestic consolidated subsidiaries

Holding company	Investee company	Control and ownership of holding company
		%
Makhteshim-Agan Industries Ltd.	Makhteshim Chemical Works Ltd. (Makhteshim)	100
	Agan Chemical Manufacturers Ltd. (Agan)	100
	Lycored – Natural Products Industries Ltd. (Lycored)	100
	Luxembourg Medicine Ltd.	100
Makhteshim	Prisma Industries Ltd.	100
	Negev Peroxide – Registered Partnership	100
Agan	Agan Aroma Chemicals Ltd.	100
	Agan Chemical Marketing Ltd.	100
Lycored	Bio-Dar Ltd.	100
	Dalidar Pharma Israel (1995) Ltd.	100
Luxembourg Medicine Ltd.	Isramedcom Ltd	100
	Luxvision Ltd. (formerly Curex Ltd.)	100

B. Foreign consolidated subsidiaries

Holding company	Investee company	Control and ownership of holding company
Makhteshim	Celsius Property B.V. (Celsius)	100
Agan	Fahrenheit Holding B.V. (Fahrenheit)	100
Lycored	Nutriblend International Sarl	100
	ALB Holdings UK	100
ALB Holdings UK	Nutriblend Ltd.	100
Makhteshim and Agan in equal parts	Makhteshim Agan Holding B.V.	100
Celsius	Irvita Plant Protection N.V.	100
Irvita Plant Protection N.V.	White Rock Insurance Company PCC Limited/Macell	100
Fahrenheit	Quena Plant Protection N.V.	100
Celsius and Fahrenheit in equal parts	Magan HB B.V.	100
	Aragonesas Agro S.A.	100
	Magan Argentina S.A.	100
	Proficol S.A.	57.5
	Proficol Andina N.V.	57.5
Magan HB B.V.	MAB Participacoes S/C Ltd.	100
MAB Participacoes S/C Ltd.	Milenia Participacoes S.A	100
Milenia Participacoes S.A.	Milenia Paraguay S.A.	100
	Emerald Agrochemical Company AVV	100
	Milenia Biotechnologia e Genetica Ltd.	55
	Milenia Agro Ciencias S.A.	100
	Defensa S.R.L.	100
Proficol S.A.	Proficol Venezuela S.A.	100
Proficol Andina N.V.	Rice Co. LLC (USA)	50.1

Appendix to the Financial Statements

B. Foreign consolidated subsidiaries (cont'd)

Holding company	Investee company	Control and ownership of holding company
		%
Makhteshim Agan Holding B.V	Makhteshim Agan Costa Rica S.A.	100
	Makhteshim Agan Espana S.A.	100
	Makhteshim Agan of North America Inc.	100
	Makhteshim Agan France S.A.R.L.	100
	Makhteshim Agan (UK) Ltd.	100
	Makhteshim Agan Romania S.R.L.	100
	Makhteshim Agan (Thailand) Ltd.	100
	Agricur Defensivos Agricolas Ltd.	100
	Makhteshim Agan Italia S.R.L.	95
	Makhteshim Agan South Africa PTY Ltd.	100
	Magan Korea Co. Ltd.	100
	Makhteshim Agan India Private Ltd.	100
	Makhteshim Agan Poland SP. zo.o	100
	Magan Holding Germany GmbH	100
	Makhteshim Agan Sweden AB	100
	Makhteshim Agan Portugal Ltd.	100
	Magan Japan Co. Ltd.	100
	Magan Italia S.R.L	100
	MA U.S. Holding Inc. (USA)	100
Agronica Australasia Pty Limited Australia		100
Magan Holding Germany GmbH	Feinchemie Schwebda GmbH	100
	Makhteshim Agan Deutschland GmbH	100
Feinchemi Schwebdan GmbH	FCS France S.A	100
	Feinchemi (UK) Ltd.	100
MA U.S. Holding Inc. (USA)	Farm Saver Group	100
	Control Solutions Inc.	45
Agronica Australasia Pty Limited Australia	Farmoz Pty Limited	100

C. Companies Proportionately Consolidated

Makhteshim Agan Industries	Biotec M.A.H. Management Ltd	50
	Biotec M.A.H. - Registered Partnership	50
Biotec M.A.H - Registered Partnership	Biotec Agro Ltd.	100
Makhteshim Agan Holdings B.V.	Alfa Agricultural Supplies S.A.	49
Fahrenheit	InnovAroma S.A.	50

D. Affiliated companies

Makhteshim	Fibertec Fiberglass Ltd.	45.5

Makhteshim and Agan hold shares in other foreign companies which retain registration rights to certain products sold outside of Israel.