

KOOR INDUSTRIES LTD
Form 20-F
July 14, 2004

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, 2003

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

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(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:

15,993,135 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
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Indicate by check mark which financial statements the registrant has elected to follow:

Item 17 X Item 18
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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.

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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, 2003 have been translated into U.S. dollars for the convenience of the reader at the exchange rate of the dollar on December 31, 2003 (NIS 4.379 = \$1.00), as published by the Bank of Israel (see Note 2B(1) 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, 2003.

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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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, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003 has been derived from our audited consolidated financial statements. 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 certified public accountants in Israel. The consolidated selected financial data as of December 31, 1999, 2000 and 2001 and for the years ended December 31, 1999 and 2000 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. 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 2003 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, 2003, or at any other rate. All figures 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			
1999	2000	2001	2002
(In thousands, except share and per share data)			
Adjusted NIS as of December 31, 2003			

Operating Data:

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Israeli GAAP:

Net sales.....	9,784,752	8,292,026	7,463,419	7,099,790
Gross profit.....	2,446,831	2,094,776	1,697,733	1,784,010
Operating earnings.....	749,058	713,507	358,437	479,864
Financial expense, net.....	335,915	323,051	432,437	408,437
Other income (expense), net.....	234,332	168,037	(622,660)	5,824
Minority interest, net.....	(8,527)	(54,102)	8,367	(60,049)
Net earnings (loss) from continuing activities.....	616,094	56,722	(2,621,648)	(766,969)
Result of discontinued activities, net.....	(34,222)	226,928	(29,279)	-
Net earnings (loss).....	581,873	283,650	(2,650,927)	(766,969)
Basic earnings (loss) per share.....	36.98	18.44	(174.54)	(50.55)
Weighted average number of shares used in computing basic earnings (loss) per share.....	15,737,564	15,384,206	15,188,463	15,173,291
Diluted earnings (loss) per share...	36.63	18.36	(174.54)	(50.55)
Weighted average number of shares used in computing diluted earnings (loss) per share.....	16,062,126	15,597,253	15,188,463	15,173,291

U.S. GAAP:

Income (loss) before extraordinary item.....	564,182	265,647	(2,624,921)	(761,561)
Net income (loss).....	569,983	265,647	(2,624,921)	(761,561)
Basic earnings (loss) per ordinary share.....	36.22	17.26	(172.81)	(50.18)
Basic earnings (loss) per ADS.....	7.24	3.45	(34.56)	(10.04)
Diluted earnings (loss) per ordinary share.....	35.87	17.19	(172.81)	(50.18)
Diluted earnings (loss) per ADS.....	7.18	3.43	(34.56)	(10.04)

Balance Sheet Data:

Israeli GAAP:

Working capital.....	964,418	1,047,465	1,859,986	1,160,293
Total assets.....	18,406,712	15,704,961	13,514,082	13,432,798
Short-term debt.....	3,771,300	2,856,290	1,811,662	2,315,499
Long-term debt.....	4,313,120	3,518,561	4,934,834	4,339,578
Shareholder's equity.....	4,646,250	4,563,106	2,195,834	1,727,169

U.S. GAAP:

Total assets.....	18,608,143	15,868,340	14,015,442	14,024,235
Shareholder's equity.....	4,686,035	4,446,313	2,135,082	1,707,885
Number of shares outstanding.....	15,730,971	15,192,379	15,168,884	15,173,377

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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)
-----	-----	-----

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January 2004.....	4.483	4.371
February 2004.....	4.493	4.437
March 2004.....	4.535	4.483
April 2004.....	4.599	4.515
May 2004.....	4.634	4.555
June 2004.....	4.552	4.490

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) -----
1999.....	3.142
2000.....	4.078
2001.....	4.203
2002.....	4.738
2003.....	4.530

On July 13, 2004, the exchange rate was NIS 4.485 per U.S. dollar as reported by the Bank of Israel.

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 2003, 2002 or 2001. We paid final dividends of NIS4.10 per share in 2000.

Risk Factors

Risks Related to Koor

We depend on our subsidiaries and affiliates for dividends 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 25 million and NIS 36 million in 2003 and 2002, respectively, pursuant to management agreements between us and several of our subsidiaries and affiliates. In addition, in 2003 and 2002 we received NIS 23 million and NIS 31 million, respectively, in dividends from subsidiaries, of which NIS 18 million and NIS 21 million, respectively, was received from Makhteshim-Agan Industries Ltd., or MA Industries.

In recommending dividends and approving management fees, the

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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, 2003 and 2002, our telecommunication equipment business accounted for approximately 10.4% and 11.5%, respectively, of our consolidated net sales. Our business in this industry is primarily conducted through our consolidated subsidiary Telrad. We also own approximately 31% of ECI Telecom Ltd., or ECI, a publicly traded company engaged in the telecommunication equipment business, whose results are not

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consolidated in our financial statements, but are accounted for based on the equity method. Telrad's systems 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. Although there are indications that the downturn may be ending, we cannot predict whether the markets will fully recover or the downturn will continue for a long period of time.

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 during 2001, 2002 and 2003, including downsizing manpower, streamlining operations and divestiture

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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, 2003, the balance of our investment in ECI was approximately NIS 726 million, reflecting our share in ECI's equity.

In the second half of 2003, we perceived 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, 2003 and 2002, our telecommunication equipment and defense electronics businesses accounted for approximately 27.1% and 35.2%, respectively, of our consolidated net sales, and 60.9% and 68.8%, respectively, of our total consolidated research and development expenses. In addition, for the years ended December 31, 2003 and 2002, our investment in ECI accounted for 60.9% and 65.4%, respectively, of our total investments in the telecommunications equipment industry. 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

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such new technologies on a timely basis will be significant factors in the ability of these businesses to grow and remain competitive. 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.

Generally, our subsidiaries in these industries, including Telrad, Elisra Electronic Systems Ltd., or Elisra, as well as ECI establish their own research and development priorities and budgets. However, several of Telrad's products have been based on technology licensed from Nortel Networks Ltd., or Nortel. As a result, our ability to introduce new and enhanced products was partially dependent on Nortel continuing to provide advanced technology to Telrad. Following the establishment of Nortel Israel and the related change in Telrad's business, however, such reliance has been substantially reduced.

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

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Telrad, one of our significant subsidiaries, 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, 2003 and 2002, approximately 8.5% and 8.6%, respectively, of our consolidated net sales and 51.4% and 69.1%, 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, 2003 and 2002, our agrochemicals business accounted for approximately 67.5% and 58.3%, respectively, of our consolidated net sales. Several of our 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

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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.

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

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Through Koor Corporate Venture Capital, or Koor CVC, we invest from time to time in start-up companies and venture capital funds. As of December 31, 2003, we had invested, through Koor CVC, approximately \$132 million in the start-up companies and venture capital funds in Koor CVC's portfolio, excluding Koor CVC's initial investment in Scopus Network Technologies (originally Tadiran Scopus). In June 2003, Koor CVC sold most of its commitment to its portfolio 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 by \$22 million to \$14 million. As of December 31, 2003, Koor CVC's commitment to invest in start-up companies and venture capital funds further declined to approximately \$9 million. This amount may be drawn upon by the funds at any time over the next 1-5 years, based upon their needs.

During 2003, through Koor CVC, we invested in and made loans to startup companies and our portfolio venture capital funds in the amount of approximately \$4 million. Our investment in hi-tech and venture capital companies carries with it a high level of risk. The main risk factors are:

- o 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;
- o 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;
- o 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;
- o 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;

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- o 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;
- o The lack of intellectual property protection for internet products and increased competition in this area; and
- o The lack of ability to control and manage a company in which we hold a minority stake.

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

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of causing environmental damage are not insurable risks.

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

During October 1997, following the publication of a newspaper article containing details about alleged violations of the Law for Restrictive Trade Practices, 1988 (Israeli Antitrust Law) regarding price coordination and lack of competition between Tadiran Ltd., or Tadiran (our wholly-owned subsidiary), Tadiran Telecommunication Ltd., or TTL (a former subsidiary of Tadiran which merged with ECI in 1999), and Telrad, the Commissioner of Restrictive Trade Practices (Israeli Antitrust Authority) 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 December 13, 1998, the Investigations Department of the Israeli Office of Restrictive Trade Practices (Israeli Antitrust Authority) announced in a press release that it had concluded the investigation regarding allegations of illegal restrictive arrangements between us, Tadiran, TTL, Telrad, The Israel Telecommunications Corporation Limited, or Bezeq, and Bezeqcall Communications Ltd. in the field of the supply of public switches and in the Network Termination Point, or N.T.R, area. According to the press release, the investigators recommended indicting some of the examinees as a result of the investigation of several allegations, and the Legal Department of the Israeli Antitrust Authority will decide if offenses were in fact committed and if there is sufficient evidential basis for trial.

On March 4, 2002, Tadiran (which committed to indemnify ECI on any damage resulting from the issues under review by the Israeli Antitrust Authority), TTL and Telrad received notice from the Israeli Antitrust Authority that the Israeli Antitrust Authority is considering the possibility of bringing each of these companies to trial for offenses against the Israeli Antitrust Law, as a result of the actions of these companies with regard to the supply of public switches

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between the years of 1993 and 1997. The Israeli Antitrust Authority's notice states that the allegations against Telrad and Tadiran in the field of N.T.R. are still being reviewed by the commissioner of the Israeli Antitrust Authority. We are currently negotiating with the Israeli Antitrust Authority in an effort to conclude the proceedings related to the Authority's investigation. See also note 18A to our consolidated financial statements included elsewhere in this annual report.

Under the Israeli Antitrust 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.

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

Several of our subsidiaries, primarily those in the agrochemical

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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, 2003 and 2002, sales of military products accounted for approximately 16.8% and 23.8%, 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 2.2 billion as of December 31, 2003 compared to NIS 3.0 billion as of December 31, 2002. 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.

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 2001, 2002 and 2003, the annual rate of inflation was approximately 1.4%, 6.5%, and -1.9%, respectively, while the NIS depreciated against the dollar by approximately 9.3%, 7.3% in 2001 and 2002, respectively, and appreciated against the dollar by approximately 7.6% in 2003. Consequently, during the calendar years 2001, 2002 and 2003, the annual rate of inflation as adjusted for devaluation was approximately -7.9% and -0.8%, and 5.7%, respectively. Continued deflation in Israel or a 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

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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,

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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.

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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.

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, 2003 and 2002, our consolidated companies received government grants in the fields of research and development of approximately NIS 21 million and NIS 25 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.

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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 corporate tax rate ranging from 0-25%. These companies with "approved enterprise" status are also entitled to an accelerated amortization deduction over five years for fixed assets serving these companies.

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 taxed at a rate of 25% of the profit distributed. Deferred taxes in respect of income from approved enterprises were not 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

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return of previously provided benefits plus interest and linkage differentials. As of December 31, 2003, our subsidiaries and the companies in which we have invested which have been granted "approved enterprise" status have complied with the terms set forth above.

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

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.

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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, 2003 and 2002, international sales represented approximately 86.7% and 78.2%, respectively, of our consolidated

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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, 2003, we reported consolidated net sales of approximately NIS 7,690 million (\$1.8 billion), consolidated operating profit of approximately NIS 896 million (\$205 million) and a consolidated net income of approximately NIS 46 million (\$11 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, 2004, Claridge Israel L.L.C. and Esarbee Investments Limited together held approximately 29.40% of our outstanding ordinary shares (15.03% held by Claridge Israel L.L.C. and 14.37% 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

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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 2003, 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 2003, our portfolio companies took the following steps in implementing our strategic plan:

- o MA Industries built on its strategy for generating growth through acquisitions and in-house development, while strengthening its presence in European and North American markets. MA Industries benefited from its acquisition in 2002 of 11 high margin products and the licenses and distribution rights related to these products from Bayer CropScience and Feinchemie Schwebda. In April 2003, a subsidiary of MA Industries acquired the outstanding shares of Nutriblend Ltd.,

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an English company engaged in the blending and marketing of vitamins, for approximately 3 million euros.

- o 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; and strengthening its financial position. As part of this plan, in April 2003, ECI sold most of the assets and liabilities of Innowave ECI Wireless Systems Ltd., a subsidiary of ECI, to Alvarion Ltd. 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%. As a result of our shareholdings in ECI, following this distribution, we hold a direct 12.9% interest in ECTel.
- o Telrad completed a major reorganization plan initiated in 2002, which included reducing expenses through staff reduction; merger of businesses; and rescheduling of bank debt. Telrad also leveraged its customer relationships and signed new agreements to supply products to countries in Africa, South America and Asia Pacific. In 2003, Telrad returned to profitability and recorded a significant improvement in its balance sheet.
- o 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.
- o Koor CVC continued to work closely with its portfolio companies to seek out new markets and attract new investors. Koor CVC further prioritized its cash

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commitments by selling most of its venture capital funds portfolio in 2003, freeing resources for direct investments in promising companies within its portfolio. Our Telecommunication Equipment Business

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

Our telecommunication equipment business generated NIS 796 million and NIS 814 million of sales in 2003 and 2002, respectively, representing 10.4% and 11.5%, respectively, of our consolidated net sales for such years. International sales accounted for 90.7% and 89.2% of our telecommunication equipment business' sales for 2003 and 2002, respectively.

Excluding sales of ECI, which are not consolidated in our results of operations, a majority of the sales made by our telecommunication equipment business are made to one principal customer: Nortel. In 2003 and 2002, sales to Nortel represented 55% and 52%, respectively, of our telecommunication equipment business' sales. As described below under "Relationship with Nortel," in May 2000, we, Telrad and Nortel entered into an agreement to establish a new company under the name Nortel Networks Israel (Sales and Marketing) Ltd., or Nortel Israel. Nortel Israel acquired and operates Telrad's public switching and TX1 Systems businesses, which currently comprise the majority of Telrad's sales to Nortel. Prior to October 2003, we and Telrad held a 28% stake in Nortel Israel; however, in October 2003, we and Telrad exercised a put option and sold our entire holdings in Nortel Israel to

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Nortel. As a result, as of December 31, 2003, we no longer held any shares of Nortel Israel.

The principal companies in our telecommunication equipment business are:

	Percentage Of Equity Ownership	Principal Products and Services
	-----	-----
ECI Telecom Ltd.	30.61%	Telecommunication equipment and systems
Telrad Networks Ltd.	100.00%	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 supports traffic on more than 500 service networks in over 145 countries.

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).

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Since the beginning of 2003, ECI's core businesses have been operated primarily through the following two divisions, although it has certain other operations and interests:

- o The Broadband Access Division (formerly known as the Inovia(R)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.
- o The Optical Networks Division (formerly known as the Lightscape(TM)Optical Networks Division and includes the former Enavis division), which provides telecommunications service providers with metropolitan and regional intelligent and flexible multi-service

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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.

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

- o Veraz Networks Inc., or Veraz, a private company in which ECI holds a 43% interest, that 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 us to maintain a foothold in an important strategic market, while at the same time focusing internal resources on our 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

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(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., ECI invested \$10 million in the new entity.

- o ECTel Ltd., or ECTel (Nasdaq: ECTX), a publicly traded company in which ECI held a 58.4% interest as of December 31, 2003. On May 10, 2004, ECI distributed the majority of its shares in ECTel to its shareholders, including us, reducing its holdings in ECTel to approximately 16.0% and resulting in our direct ownership of a approximately 12.9% interest in ECTel. 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, sold its government surveillance business to Verint Systems Inc. (Nasdaq:

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VRNT) for \$35.0 million in cash. The transaction was consummated on March 31, 2004.

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

In April 2003, ECI completed the sale to Alvarion Ltd. of the operations of InnoWave ECI Wireless Systems Ltd. InnoWave provided fixed wireless access solutions for the local subscriber loop. The transaction was structured as a purchase of assets and liabilities. The value of the transaction was approximately \$20 million consisting of the cash consideration paid to ECI by Alvarion of \$9.1 million (of which \$0.6 million was paid to certain key employees of InnoWave being transferred to Alvarion) and the cash balances of InnoWave at the date of closing, which were withdrawn by ECI. In addition, ECI received warrants to acquire 200,000 shares in Alvarion over a period of 5 years, at an exercise price of \$3 per share. ECI had previously, during 2002, announced its intention to sell the operations of InnoWave and accordingly InnoWave's activities had been reclassified by ECI as discontinued operations.

Under U.S. GAAP, for the year ended December 31, 2003, ECI reported revenues of \$421 million, a gross profit of \$165 million, a loss from continuing operations of \$66 million and a net loss of \$71 million. Under Israeli GAAP, ECI's net loss for the year ended December 31, 2003 was \$81 million. ECI is included in our financial statements on an equity basis only. As of December 31, 2003, our equity interest in ECI was approximately 30.61%.

Some of ECI's current and future liabilities to banks are secured by certain liens on certain assets and rights, as well as an unlimited negative pledge on ECI's assets. As a condition

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for further bank credit and in accordance with the terms of the negative pledge, ECI undertook to comply with a certain financial ratios. In the end of 2002 and the beginning of 2003, ECI failed to comply with some of the financial ratios agreed upon in a facility agreement with several banks. During the second quarter of 2003, under the terms of an agreement signed with these banks, ECI repaid debt of approximately \$123 million, and new financial ratios were prescribed, with which ECI is in compliance. Accordingly, the liabilities to banks were included in long-term debt on ECI's balance sheet as of December 31, 2003.

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 four independent market oriented divisions:

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- o Telrad Networks Solutions, or TNS, is the division responsible for research and development as well as sales and support for Nortel Networks in wireline, wireless and enterprise areas. TNS develops carrier-grade quality products with a rapid time-to-market deployment.
- o Telrad Optical Networks, or TON, is the division responsible for research and development as well as sales and support for Nortel Networks in Optical Networks. TON develops carrier-grade quality products with a rapid time-to-market deployment.
- o 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 and delivery of turnkey telecommunications projects.
- o 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.
- o Start-ups 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 telecom industry. Products include next generation integrated broadband access solutions, feature rich telephony services over different networks, and digital and Voice Over IP telecom solutions and applications.

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Reorganization plans

Beginning in November 1998, Telrad's board of directors approved a series of reorganization plans, including reorganizing Telrad's operations into independent market-oriented divisions. The reorganization plan provided for the release of employees which was completed without disturbances to labor relations mainly through voluntary resignations and early retirement. In connection with this program, Telrad wrote-off expenses for each year since 1998 and its work force has been reduced by more than 1,000 employees.

In 2002, Telrad's board of directors approved an additional reorganization plan that included the additional release of employees which again was accomplished through voluntary resignations and early retirements. For 2002, 2001 and 2000, our financial statements include an expense of NIS 107 million, NIS 90 million and NIS 273 million, respectively, recorded under the item "Other income (expenses), net. During 2003, Telrad completed the reorganization as planned and approved by the board in 2002 and as a result, Telrad reduced its workforce to be in line with its current sales volume and requirements.

As part of Telrad's reorganization plan, in 1999 and 2000, Telrad carried out the spin-off of several of its technology and development divisions and formed them into separate start-up subsidiary companies, in order to provide Telrad with new sources of proprietary technology-based growth in the telecommunications fields.

Start-ups and new subsidiaries

During the period starting at the end of 1999 until mid-2000, Telrad effected the spin-off and established several start-up companies.

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Be Connected Ltd. Be Connected is a joint venture of Telrad Networks Ltd. (87% share) and Cisco Systems Inc. (13%). Be Connected is involved in the development and marketing of next generation integrated broadband access solutions to support all types of services, including narrowband and broadband, for the telecommunications market.

During 2000, Be Connected raised \$15 million from Cisco Systems Inc., an international communications company, at a post-money value of \$140 million.

During 2002, Be Connected concluded its initial commercial sales of its products for a total of \$2 million in revenues and during 2003, it also generated \$2 million in revenues from the sale of its products.

At the end of 2003, the board of directors of Be-Connected decided, due to the company's difficult financial straits and inability to raise additional funds for the continued development of its product, to sell its technology and IP to another Israeli communications company in exchange for shares of that company, which were transferred to Telrad in proportion to its ownership interest, while at the same time making arrangements with that company for Telrad's continued right and ability to market and sell this family of product as a part of its overall telecommunications solutions which it offers to its customers. No capital gain or loss was recorded as a result of this transaction.

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Com-Match Ltd. Com-Match, a wholly-owned subsidiary of Telrad, is a leading provider of Last-Mile over IP solutions for Telecom Operators, creator of DUET Carrier Grade Voice over IP, or VoIP, Access Gateways. Com-Match is a spin-off of Telrad Networks. The company's mission is to deliver carrier class VoIP 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 Next Generation IP networks via various alternative infrastructures, like Cable TV, xDSL, fixed broadband wireless and more. The company's technology provides connectivity and interoperability for Next Generation Access and Public Networks. Com-Match's sales in 2003 and 2002 totaled \$1.8 million and \$2.0 million, respectively.

Telrad Connegy Communications Inc. (Connegy) (formerly Telrad Tenecs Ltd. (Tenecs)). In April 2001, Telrad effected a spin-off of its "Digital-Keybox" line of products and established Tenecs, a developer and manufacturer of advanced business communications solutions. Its main products include the UNITE Family of Business Systems, and IP and LAN telephony solutions, among them the advanced i.Picasso 6000 IP telephone, and the CNS 3200 Enhanced Hosted Communications Platform. The company provides enterprise customers, carriers and others with the most comprehensive family of digital and voice over IP telecommunication solutions and applications. The sale of its products to the U.S. market is performed by its U.S. subsidiary, Telrad Tenecs Inc.

On March 11, 2002, an agreement was signed between Telrad, Tenecs and Congruency Inc., or Congruency, pursuant to which Tenecs merged with Congruency, a company established in 1998 and which is engaged in the development and manufacture of PABX telephony equipment, based on VOIP

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technology. Following the closing of this transaction, Telrad held 52% of the merged company, Telrad Conneqy Communications Inc., or Conneqy. In 2003 and 2002, Conneqy's net sales were \$21.0million and \$24.7 million, respectively.

As part of its program to reduce costs, Telrad closed two of its subsidiaries, Galaxtel and Aptonix, during 2001 and closed a third subsidiary, Firebit, in 2002. In addition, in January 2001, Telrad sold Felix Telecom, its subsidiary in Romania, for \$1.8 million.

In the first quarter of 2004, Telrad purchased all of the IP assets and the business activities of MediaGate Ltd., an Israeli company which developed and sold its voice mail and unified messaging systems, for a purchase price of \$1 in cash and future royalty payments based on revenues from future sales of these systems by Telrad until 2009. Telrad integrated this business line into its PNI division.

Relationship with Nortel

In January 1995, Telrad entered into a cooperation agreement with Nortel that enabled Telrad to market Nortel products in Israel and other specified territories and to sell products developed by Telrad to Nortel. At that time, Telrad held licenses to the know-how underlying the

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digital switching and transmission systems utilized in its public and private switches pursuant to agreements with Nortel.

In January 1997, Nortel exercised an option, granted in 1995, to purchase 20% of Telrad's ordinary shares for \$45 million. According to the shareholders agreement, Nortel had a put option to sell its Telrad shares. In January 1997, Telrad licensed the right to use certain existing and future know-how from Nortel for a ten-year period, for which Telrad was unconditionally required to pay Nortel NIS 61 million (\$15 million).

In May 2000, we, Telrad and Nortel signed an agreement to establish Nortel Israel. Nortel holds 72% of Nortel Israel, and we hold 28% together with Telrad. Nortel Israel acquired from Telrad the sales, marketing and support functions of its public switching and TX1 systems businesses and Telrad's operations in these fields in Israel and in several export markets. In addition, Nortel Israel represents all of Nortel's activities in Israel. The transactions contemplated by the agreement closed on August 31, 2000 and Telrad sold these businesses to Nortel Israel for approximately \$90 million as well as the value of the transferred assets. The business operations that Telrad sold to Nortel Israel constituted about 40% of Telrad's business.

We invested approximately \$5.6 million in the share capital of Nortel Israel and we provided it with a shareholder's loan of \$43 million bearing interest at 6% per annum. In May 2003, Nortel Israel paid \$50.4 million to fully repay the loan. As consideration for early repayment of the loan, Koor and Telrad waived part of the interest due on the loan.

In addition, we and Telrad were granted a put option to sell its holdings in Nortel Israel to Nortel and in turn gave Nortel a call option to buy Koor and Telrad's holdings in Nortel Israel. In October 2003, we and Telrad exercised our put option and sold all of our shares in Nortel Israel to Nortel for an aggregate purchase price of approximately \$4 million. As a result of this sale, we sustained a capital loss of approximately NIS 6.3 million.

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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. Telrad and Nortel are currently having discussions on unifying the agreements into one master agreement which would apply to Telrad and Nortel worldwide.

Credit Risk Exposure

As part of the above mentioned agreement 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, Papua New Guinea, Myanmar, the Palestinian Authority, Chile, Bolivia and Georgia.

As of December 31, 2003 and 2002, Telrad's long-term credit risk exposure from these agreements amounted to NIS 27 million and NIS 62 million, respectively. During the first quarter of 2004, Telrad further reduced its long-term credit risk exposure by collecting an additional NIS 18 million in receivables.

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Cost Reduction Plan

A major decline in the international communications industry began at the end of the year 2000. Due to the decline, Nortel decided to reduce significantly its purchases from Telrad.

As a result of the sharp decline in its sales, the management of Telrad decided, at the beginning of 2001, and continued in 2002, to take several steps to cut costs and minimize the affects of the telecom crisis. In addition to the reorganization plan and retirement plans discussed above, Telrad implemented cost reduction measures, including shutting down two start-up subsidiaries and pausing all recruitment of new personnel, as well as cutting costs in the areas of advertising, travel and exhibitions. This process was completed in 2003.

Beginning in 2002, Telrad has not complied with some of the financial ratios defined in a credit agreement with several banks. During 2002, Telrad reached agreement in principle with the banks, although they have not yet executed a definitive agreement, whereby the debt balance was to be rescheduled, short-term credits were to be converted into long-term loans and loans were to be repaid. The balance of Telrad's debt was stated in the financial statements as at December 31, 2002 in accordance with this agreement in principle with banks. Telrad intends to repay the balance of the debt during 2004. Therefore, this debt was classified as current liabilities in the financial statements as at December 31, 2003.

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. MNI is a consolidated subsidiary of Tadiran Electronics Industries Inc., or TEI, our wholly-owned subsidiary. For the years ended Decmeber 31, 2003 and 2002, MNI had sales of approximately \$28.6

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million (NIS 125 million) and \$41.7 million (NIS 183 million), respectively.

Our Defense Electronics Business

Our defense electronics business is conducted through the Elisra Defense Group, or Elisra Group, which, since 2000, combines all of our defense electronics operations. 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. Until November 2003, the Elisra Group also included Elisra's interest in B.V.R Systems (1998) Ltd., or BVR, a publicly traded corporation; however, Elisra sold all its shares in BVR in November 2003.

For the years ended December 31, 2003 and 2002, our defense electronics business had sales of NIS 1,286 million and NIS 1,687 million, respectively, representing 16.7% and 23.8%, respectively, of our consolidated net sales during these periods. In 2003 and 2002, the majority of sales of our defense electronic business were made to defense-related customers.

In 2003, the Elisra Group's sales to the Israeli Ministry of Defense, or IMDF represented approximately 23% of the Elisra Group's sales.

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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

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

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 C4I, 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.

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As of December 31, 2003, our defense electronics business had an aggregate backlog of confirmed orders of NIS 2.2 billion (\$513 million) compared to NIS 3.0 billion (\$626 million) as of December 31, 2002.

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, Koor and Elisra entered into an agreement with Elta, a wholly-owned subsidiary of Israel Aircraft Industries, to sell to Elta 30% of Elisra's shares for \$100 million. In addition, Koor granted to Elta an option to increase its holdings in Elisra by up to an additional 8% in consideration of a maximum sum of approximately \$26 million. This option expired unexercised on December 31, 2003.

In addition, Koor and Elisra entered into an agreement with Elta to set out the structure of Elisra's board of directors and its decision making process, and impose certain limitations on the

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sale of Elisra's shares. Elisra and Elta also signed a cooperation agreement regarding an agreed upon basket of products. The agreement contemplates potential partnerships in the areas of marketing and research and development. In November 2002, after receipt of the required approvals, the transaction was completed.

From time to time, when Elisra enters into contracts or receives advances it is required to provide performance guarantees or payment guarantees from creditworthy institutions. To secure these guarantees, which were issued by several banks, and a credit line (which as of the balance sheet date was drawn down only for the short-term), Elisra undertook to maintain certain financial ratios. Elisra also agreed to terms that restrict the furnishing of guarantees to third parties by creating new liens, and to restrict the sale and transfer of assets. During 2003, Elisra did not comply with some of these financial ratios. Elisra negotiated new financial ratios with these banks during the first quarter of 2004 and is currently in compliance with these new financial ratios.

Tadiran Electronic Systems Ltd. (Tadiran Electronic)

Tadiran Electronic is engaged in providing solutions for a variety of customers in the field of C4I, electronic warfare COMINT systems and spectrum management and control systems.

An array of electronic hardware and computer software is incorporated into the C4I systems, which enable the collection, processing, analysis and display of large quantities of information to facilitate effective

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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.

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 \$35 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 have 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), supported by 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.

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

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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.

Our Agrochemicals Business

Our agrochemicals business is conducted primarily 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

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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 Ciensas 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 pesticides, 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, 2003 and 2002, our agrochemicals business had sales of NIS 5,192 million (\$1,186 million) and NIS 4,140 million (\$945.5 million), respectively, representing 67.5% and 58.3%, respectively, of our consolidated net sales during such periods. International activities, primarily sales in Europe, North America and Latin America, accounted for 92.6% and 90.6% of our agrochemicals business' sales in 2003 and 2002, respectively.

The principal companies in our agrochemicals business are:

	Percentage Of Equity Ownership	Principal Products and Services
	-----	-----
Makhteshim-Agan Industries Ltd.	48.59 (1) (2)	Holding Company
Makhteshim Chemical Works Ltd.	100.0 (3)	Insecticides and fungicides and other chemi
Agan Chemical Manufacturers Ltd.	100.0 (3)	Herbicides and synthetic aroma chemicals
Milenia Agro Ciensas S.A.	100.0 (3)	Formulation and distribution of crop protection chemicals

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- (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 27 million shares of MA Industries on January 14, 2004, our interest in MA Industries decreased to 41.29% and as a result of the issuance of additional shares by MA Industries in June 2004 upon the conversion of convertible debentures, our interest in MA Industries was further decreased to 39.9% as of June 30, 2004.
- (3) Indicates the percentage of direct ownership by MA Industries.

MA Industries results were included in our consolidated financial statements as of and for the year ended December 31, 2003 despite the decrease in our ownership to below 50% since, in our management's opinion, given the voting agreements we entered into with two other shareholders holding a total of 3.87% of the voting rights in MA Industries as described below, we continued to exercise effective control over MA Industries as of December 31, 2003.

The Agrochemicals Business Environment in 2003

The agrochemical industry has been undergoing both a structural change and challenges in recent years, with initial signs of recovery in 2003. Despite these initial signs of recovery, for the full year the world market

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declined to approximately \$24.6 billion, a decrease of approximately 1.6% compared to 2002. The main factors affecting the agrochemicals market in 2003 were improved prices of agricultural commodities, good weather conditions in North America and Asia, harsh weather conditions in Europe, increasing market share of genetically-engineered seeds, the improving South American economy (manly Brazil), and the strengthening of most currencies against the US dollar. Although the growth in the market encompasses all geographical regions, the most significant rise is in Western Europe, where market growth was about 13.4% compared with last year. This was due almost entirely to the strengthening euro and other European currencies against the dollar. The weakening of the dollar against the various currencies in 2003 impacted significantly on the size of the agrochemicals market in dollar terms. Eliminating the effects of currency and inflation, the fluctuations in most markets appear minor in real terms.

The agrochemicals market has become more concentrated since the recent years' trend of mergers of the multinational companies. The consolidation of the market continued in 2003, and at the end of 2003, Griffin LLC was fully acquired by DuPont. Upon completion of the acquisition of AventisCropScience, BayerCropScience became the leading corporation in the industry.

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.

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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 65% as of December 31, 2003 and is expected to reach approximately 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, licensing, establishment of production and marketing

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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, herbicides and biotechnological products, based

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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 new 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.

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. 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 MA Group accounted for more than 10% of MA Industries' total sales in 2003 and 2002.

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.

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In December 1998, the MA Group acquired a 45% interest in Productos Fitosanitarios Proficol El Carmen S.A., or Proficol, one of the leading agrochemicals distribution companies in Colombia. In December 2000, the MA Group acquired another 12.5% of Proficol (Colombia), achieving an aggregate stake of 57.5%. MA Industries believe that Proficol constitutes a significant anchor for the MA Group activities in the Paco-Andeau region (the northern South American countries).

In the beginning of 1999, Milenia Participacoes S.A., or Milenia, MA Industries' majority-owned consolidated subsidiary in Brazil, established a joint venture with Kasba S.A., a leading marketer of agricultural inputs (including fertilizers, seeds and crop protection chemicals) in Paraguay.

In August 2000, MA Industries acquired the outstanding minority interest (approximately 28.5%) in Milenia from its minority shareholders and, thereby, obtained full ownership of Milenia. Pursuant to the acquisition agreement, MA Industries paid approximately \$22 million in cash and 12.4 million shares of MA Industries stock valued at \$28 million, with respect to 8.9 million of which it granted a Put option to be exercised in January 2002, as well as a future payment based on Milenia's profits in 2000 and 2001. In December 2001, MA Industries negotiated and signed a supplementary agreement with the minority shareholders in order to settle the continuing obligations of MA industries under the original agreement. Pursuant to the supplementary agreement, MA Industries purchased 5.9 million shares of its stock from minority shareholders for approximately \$15 million pursuant to an early exercise of the Put option, with the remaining 3 million shares subject to the Put option being waived by the minority shareholders. In addition, MA Industries paid approximately \$8.3 million to the minority

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shareholders in cash in satisfaction of its payment obligations based on Milenia's profits in 2000 and 2001. In August 2001, we sold 19,383,000 shares of MA Industries for approximately NIS 181 million. 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 Kitty Hawk Funding Corp., a United States corporation and an affiliate of the Bank of America Group. The volume expected to be at the disposal of the companies purchasing the accounts receivable is approximately \$150 million, 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 debts of customers of MA Industries' South American subsidiaries were not sold under this securitization transaction. As of December 31, 2003, MA industries received cash proceeds of approximately \$125 million from this securitization transaction.

In the fourth quarter of 2002, several of our wholly-owned foreign and local subsidiaries signed a number of agreements with Bayer CropScience AG, or Bayer, for the purchase of several of their businesses, licenses and distribution rights for agrochemical products. The acquired businesses were offered for sale by Bayer following a directive of the European Union Commission, which made its approval for Bayer's acquisition of Aventis Crop Science contingent upon the sale of several Bayer businesses, among them the businesses acquired by MA Industries.

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The acquisition of the products from Bayer constitutes an important milestone in increasing MA Industries sales in low-risk regions such as Europe, while expanding and enhancing its basket of products.

The agreements with Bayer include purchases of:

- o Worldwide rights of the herbicide Goltix(R) (active ingredient: Metamitron), intended mainly for sugar beet.
- o Exclusive marketing and distribution rights in Germany and Belgium for Herold(R), a mixture of Flufenacet and Diflufenican, a herbicide for cereals, under patent until 2013.
- o Exclusive marketing and distribution rights in Great Britain for Baytan(R), a special mixture of Fuberidazole and Triadimenol, a fungicide for the treatment of cereal seeds.
- o Marketing and distribution rights in Germany for Folicur(R) (active ingredient: Tebuconazole), one of the most effective fungicides for cereals and for rapeseed.
- o Marketing and distribution rights in Europe of the insecticide Gusathion(R) (active ingredient: Azinphos Methyl).

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- o Exclusive marketing and distribution rights in Greece and Portugal for the insecticide Thiodan(R) (active ingredient: Endosulfan).
- o Marketing and distribution rights in Europe for Baythroid(R) (active ingredient: Cyfluthrin), an insecticide from the pyrethroid family for vegetables and field crops. The purchase includes mixtures with Bayer's leading patented insecticide Imidacloprid.
- o Exclusive marketing and distribution rights in Europe for Buldock(R) (active ingredient: a-Cyfluthrin), an insecticide from the pyrethroid family, for wheat, vines and rapeseed.
- o Exclusive marketing and distribution rights in Europe for Metasystox(R) (active ingredient: Oxydemeton-Methyl), an insecticide for sucker pests, with a wide range of action for field crops, orchards and vegetables.
- o Marketing and distribution rights in Europe for Namacur(R) (active ingredient: Fenamiphos, a unique product in the group's portfolio in vegetables, bananas, tobacco and flowers. The acquisition includes mixtures with Imidacloprid.
- o Worldwide marketing and distribution rights for Afalon(R) (active ingredient: Linuron), an herbicide for potatoes and vegetables.

In addition, in 2002, MA Industries purchased from Syngenta the herbicide Flurochloridone, for sunflowers, for which the main target market is Western Europe.

The purchase of the new products is an additional stage in the implementation of MA Industries business strategy to expand and bolster its basket of products, while expanding activities in low-risk regions. As part of

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this strategy, MA Industries acquired from Bayer the products described above, and acquired, in April 2002 the German distribution company Feinchemie Schwebda GmbH., or Feinchemie, which distributes mainly generic agrochemical products. Feinchemie sales in 2001 were approximately 45 million euro, and it is the ninth-largest company in Germany in crop protection, with sales mostly in Germany and France. Feinchemie is well established in the herbicide market, particularly for sugar beet. By acquiring this company, MA Industries expects to be able to expand its operations into additional niches, by integrating the newly acquired products into its marketing array.

In April 2003, a subsidiary of MA Industries acquired the outstanding shares of Nutriblend Ltd., an English company engaged in the blending and marketing of vitamins for approximately 3 million euros.

In June 2003, we sold 9,357,000 shares of MA Industries on the Tel Aviv Stock Exchange, for total proceeds of approximately NIS 104 million, at a capital gain of approximately NIS 17 million. As a result of the sale, our ownership percentage in MA Industries declined to 49.79%. Following this transaction, in the opinion of our management, based on its discussions with legal counsel, in view of the fact that our shareholding percentage is about one half of the voting rights in MA Industries and taking into account the broad dispersal of the voting rights among the other shareholders, we continued to be the controlling shareholder in MA Industries.

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In August 2003, we signed non-temporary voting agreements with two other shareholders in MA Industries that hold together 3.87% of the voting rights in MA Industries, whereby these shareholders undertook to vote together with us at any general meeting of shareholders of MA Industries. As a result of this arrangement, we concluded that, as of December 31, 2003, we continued to effectively control MA industries despite our ownership of less than 50% of its voting shares and, accordingly, we to included the financial statements of MA Industries in our consolidated financial statements as of and for the year ended December 31, 2003. However, as discussed below, following our sale of 27,000,000 shares of MA Industries in January 2004, these voting agreements were terminated in accordance with their terms, as a result of the decrease in our ownership percentage.

As of December 31, 2003, our shareholding percentage in MA Industries was 48.59%.

Recent Developments

On January 14, 2004, we sold 27,000,000 shares of MA Industries in consideration for approximately NIS 418.5 million. The sale generated a capital gain, before tax, of NIS 162 million in the first quarter of 2004, and our percentage ownership in MA Industries decreased to 41.29%. As a result of the sale, and in view of the proven utilization of carryforward losses, a tax asset of NIS 59 million was recorded in 2003.

Following this transaction, the voting agreements we entered into with two other MA Industries shareholders in August 2003 were terminated in accordance with their terms due to the decrease in our ownership percentage in MA Industries.

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 described below,

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our ownership percentage in MA Industries decreased to 39.9% as of June 30, 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, as long as economic circumstances that negate our ability to exercise effective control are not created, MA Industries' financial statements continue to be included in our consolidated financial statements. However, under U.S. GAAP, MA Industries' financial statements will not be included in our consolidated financial statements in 2004.

In March 2004, MA Industries issued non-marketable convertible debentures in a private placement to institutional investors in the amount of \$145 million par value, in consideration for their par value. Under the terms of the placement, the underwriters were given an option for an

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additional placement of \$5 million par value debentures at identical terms, which option was fully exercised in April 2004. The debentures are for a 7-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 the company, of NIS 1.00 par value each, at a conversion rate of NIS 20.5 par value, according to a fixed exchange rate of NIS 4.514 per \$1.00. 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 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 share price of MA 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.

Our Venture Capital Business

As part of our strategic plan, we are exploring new investment opportunities in high growth potential businesses located in Israel and around the world in the fields of telecommunications and wireless, semiconductors, enterprise software, biotechnology and life sciences.

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

Within this context, Koor CVC, as a limited partner, committed to invest up to a total of \$73 million in, a number of external venture capital

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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 June 2003, Koor CVC sold most of its commitment to its portfolio 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 by \$22 million to \$14 million. As of December 31, 2003, Koor CVC's commitment to invest in start-up companies and venture capital funds further declined to approximately \$9 million. This amount may be drawn upon by the funds at any time over the next 1-5 years, based upon their needs.

Since January 2000, Koor CVC also signed investment agreements with various start-up companies. These agreements included commitments to make both new investments and follow on investments in portfolio companies. During 2003, Koor CVC transferred approximately \$4 million in follow-on investments in its portfolio start-up companies and its portfolio venture capital funds.

During 2003, Koor CVC recorded \$16 million of provisions for the decline in value of several of its portfolio companies. These provisions were as a result of depreciation in value for some of the companies.

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As of December 31, 2003, we had invested, through Koor CVC, approximately \$132 million in the start-up companies and venture capital funds in Koor CVC's portfolio, not including Koor CVC's initial investment in Scopus Network Technologies (formerly Tadiran Scopus Ltd.), in which Koor CVC holds a 27% interest on a fully-diluted basis, which was acquired from Tadiran Ltd.

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.	28.3(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, 2003 and 2002, our tourism business had sales of NIS 309 million (\$71 million) and NIS 355 million (\$81 million), respectively.

Sheraton Moriah (Israel) Ltd. (Sheraton Moriah)

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On January 24, 1999, we and Sheraton International Inc. won a public tender for the purchase of a 100% interest in Sheraton Moriah. On April 12, 1999, the transaction was completed based on a value of NIS 283 million (\$63.5 million). In October 1999, we completed the sale of a 20% interest in Sheraton Moriah to a subsidiary of Bank Hapoalim. Currently, we have a 55% interest in Sheraton Moriah.

On December 30, 1999, we merged our other hotel operations, including our interest in Herod's Hotel in Eilat, into the Sheraton Moriah network.

The Sheraton Moriah hotel network consists of 2,258 rooms (1,771 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).

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Due the escalation of violence in Israel since October 2000, there has been a significant decrease in incoming tourism to Israel, which has caused a decrease in occupancy rates and revenues and the impairment of operating results. As a result of the environment, Sheraton Moriah's management implemented a series of measures to increase Sheraton Moriah's position in the local market, while at the same time, taking active steps to reduce its expenses. These steps included reducing the impact of troubled ventures through sale or short-term lease, renegotiating and reducing the rent on leased hotels, downsizing the staff, reducing vacation days, implementing a voluntary reduction in salary, outsourcing several departments implementing chain-wide purchasing agreements and introducing procedures to control energy expenses due to rise as a result of a rise in electricity rates.

Knafaim-Arkia Holdings Ltd. (Knafaim)

We hold a 28.3% interest in Knafaim, which 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 2002, Knafaim continued to enhance its position in the aircraft leasing industry by acquiring, and leasing back, 9 aircraft. The contracts, signed with American Airlines and Delta Airlines, are valued at \$220 million, over the entire lease. Knafaim has 10 leaseback agreements with Air Canada leasing them 10 of its 12 Boeing 737-200 aircraft. The lease period ends December 31, 2005; however, in September 2003, Knafaim gave Air Canada an early termination option for the leases, exercisable in stages, starting September 30, 2004. In May 2004, Air Canada notified Knafaim of its intent to exercise its right to terminate the lease on two aircrafts in September 2004. Knafaim's Management believes that it is probable that Air Canada will exercise its right for an early termination of the lease on the remaining aircraft, by the end of 2004.

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. As of December 31 2003, Knafaim was not an interested party in El-Al as it held less than 5% of El-Al's issued share capital. However, at that date, it held options and had entered into voting agreements that would enable Knafaim in the future to attain control of approximately 52.8% of the voting rights in El-Al on a fully diluted basis.

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In January 2004, Knafaim approached the Israeli government to obtain its consent and approval to increase its holdings to more than 5% of El Al's share. In addition, Knafaim filed a merger notice on its holdings in El Al for the approval of the Commissioner of Restrictive Trade Practices.

In March 2004, the board of directors of Knafaim resolved to exercise some of the options, the exercise of which could raise Knafaim's shareholding in El Al's issued share capital to 25.1%, subject to the required regulatory approvals detailed above.

In order to finance the exercise of the options to purchase shares of El Al, in March 2004, Knafaim issued, through a private placement, debentures and options to purchase its shares for

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total proceeds of approximately NIS 135 million. If all of these options to purchase shares of Knafaim are exercised, our equity stake in Knafaim will be reduced to 25.04%.

Following the exercise of the options that had an exercise date of no later than June 3, 2004, Knafaim holds approximately 22% of the issued share capital of El-Al and controls approximately 24.9% of the voting rights in El Al. On a fully diluted basis, if Knafaim were to exercise all its remaining options, its holdings could reach approximately 46.9% of El Al's share capital with control of approximately 52.8% of the voting rights. To date, the total cost of Knafaim's investment in El Al, including the purchases of shares and options and the exercise of options, amounts to \$44 million.

As a result of the transactions described above, the Israeli government's holdings in El-Al have been reduced to 49.5%.

Histour Eltiv Ltd. (Histour)

On February 21, 2000, we completed the transfer of our holdings (51%) in Histour which provides tourist services in Israel for the release of our guarantees of the liabilities of Histour. In addition, we invested approximate NIS 17 million in Histour in exchange for preferred shares in Histour. In May 2002, we sold all our preferred shares in Histour for approximately NIS 2 million.

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 43 million, was recorded under "Assets designated for sale" in our consolidated balance sheet as at December 31, 2003.

Koor Properties Ltd. (Koor Properties)

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Koor Properties, our wholly-owned subsidiary, owns and develops directly and indirectly real estate in Israel. As of December 31, 2003, Koor Properties owned directly and indirectly an aggregate of approximately 62 thousand square meters of real property in different stages of development. Most of the land is commercially developed.

During 2001, Koor Properties, through a consolidated subsidiary, sold a portion of its real estate assets for NIS 51 million (of which approximately NIS 34 million was received in 2002). We did not record any profit or loss from the sale.

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During 2003, Koor Properties, through another consolidated subsidiary, sold most of its remaining real estate assets for NIS 10 million. We recorded a loss of NIS 1.3 million from this sale.

For the year ended December 31, 2003, the rental income related to Koor Properties was NIS 0.9 million.

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, 2003 and 2002, Koor Trade had sales of NIS 96 million and NIS 82 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.

Construction and Infrastructures (Discontinued Operations)

In 2001, our construction and infrastructures business discontinued operations due to the discontinuation of activity of USM, which was consolidated in the construction and infrastructures business. In 2000, our construction and infrastructure business included Middle East Tubes Co. Ltd. and Mashav Enterprise and Development Ltd., both of which were sold during 2000. In 1999, this business included Merhav Building Materials and Ceramics Ltd., which was sold during 1999.

United Steel Mills Ltd. (USM)

On November 5, 2001, the Haifa District Court gave a liquidation order for USM, under which Adv. Ilan Shavit was appointed as special manager until a permanent liquidator is appointed. Previously, from March 16, 2000 to July 30, 2001, the group was managed under a stay of proceedings order, and from August 1, 2001, under a temporary liquidation order.

Due to the liquidation proceeding, which commenced on August 1, 2001, the consolidation of USM in our financial statements was terminated at the beginning of the third quarter of 2001. In 2001, the operations of USM constituted the entire activity in the construction and infrastructure business in our operations, following the sale of two other companies in this

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business. In our consolidated statement of operations, including the earnings (loss) per share for the year ended December 31, 2001, operations in the construction and infrastructure business are presented as a business whose operations were discontinued. In addition, our consolidated statements of operations for previous years were restated in order to reflect the discontinuation of operations in this business.

During 2001, in the period when USM was managed under the stay of proceedings order, we made available, ex gratia and without committing to it, a special line of credit of

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approximately NIS 30 million, which was given concurrently with credit arrangements given ex gratia by the banks, and was intended to finance the expenses relating to the workers' retirement arrangements, as well as the sale of USM plants.

Since we were not a guarantor for the debts of USM to third parties, we had no share in USM's loss for the first six months of 2001 beyond the amount set forth above.

Mashav Enterprise and Development Ltd. (Mashav)

In January 2000, we sold our entire 50% holding in Mashav to Clal Industries and Investments Ltd. for approximately NIS 944 million (\$203 million). We also received 47.5% of the share capital of Mashal Alumina Industries Ltd., or Mashal Alumina, a former subsidiary of Mashav, whose business is the development of a process for producing Alumina, an aluminum compound. Our net capital gain in respect to this transaction amounted to approximately NIS 247 million (after the allocation of NIS 137 million deferred taxes). Prior to the sale, on December 30, 1999, we received dividends from Mashav in the amount of NIS 376 million. On May 24, 2004, the board of directors of Mashal Alumina decided to discontinue the activities of Mashal Alumina and to work to sell all its assets.

Other Divestitures

Koor Insurance Agency

In January 2001, we sold all our holdings in Koor Insurance Agency for consideration of approximately NIS 5 million. The profit we received from the transaction was approximately NIS 3 million.

Other Investments

Electric Fuel Corporation Ltd. (EFC)

On March 15, 2000, we entered into an agreement with Electric Fuel Corporation Ltd., or EFC, a public company whose shares are traded on the Nasdaq pursuant to which EFC would acquire Tadiran Batteries from Tadiran and we would invest \$10.5 million in EFC in exchange for an allotment of approximately 14% of EFC common stock to us and Tadiran. In May 2000, the sale of Tadiran Batteries was cancelled by mutual consent. In May 2000, we invested \$10 million in the share capital of EFC. On June 15, 2000, Tadiran entered into an agreement to sell its interest in Tadiran Batteries to EFC for a total consideration of approximately \$33 million.

Our investment in EFC shares is presented in our consolidated balance

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sheets as of December 31, 2003, as a current investment in listed securities in the amount of approximately NIS 6.6 million, or approximately 1.9% of EFC's share capital.

Nice-Systems Ltd. (Nice)

In 2000, we purchased 648,769 ordinary shares of Nice (or approximately 5.0%) through open market purchases for approximately \$10 million. This investment is presented in our consolidated balance sheets as of December 31, 2002 as a current investment in listed securities

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in the amount of approximately \$5 million. In June 2003, we sold all of our holdings in Nice through open market sales for consideration of approximately \$10 million.

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 2002 and 2003 as a percentage of the total sales of these businesses:

	2002	2003
	-----	-----
Telecommunications Equipment	14.3%	10.2%
Defense Electronics	3.9%	5.5%
Agrochemicals	1.8%	1.7%

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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

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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,			
	2001	2002	2003	2004
	(\$ in thousands)			
	(Adjusted NIS in thousands)			
Gross research and development expenses	291,073	257,101	219,391	50,100
Portion funded by the Israeli Government (1)	12,403	788	(1,952)	(446)
Net research and development expenses	278,670	256,313	221,343	50,546

(1) Net of royalties.

Competition

In 2003, 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

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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

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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

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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

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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

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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 expenditures for the MA Group in 2003 were \$12 million compared to \$33 million in 2002. The registration expenditures decreased as

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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,

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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 \$16 million in 2001, \$19 million in 2002 and \$23 million in 2003, and it is estimated that the annual investment will be between \$18 and \$22 million in the coming years, except for one-time expenditures as described below.

Makhteshim Agan's plants are located in the Ramat Hovav industrial zone. The industrial council of Ramat Hovav 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 recently directed by the Ministry of the Environment to make arrangements to end the piping of the industrial wastes to the evaporation ponds, starting January 1, 2005. In addition, the Ministry of the Environment 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 July 1, 2003.

Makhteshim 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 a one-time expense of between \$30 million and \$35 million and a multi-year investment of approximately \$20 million per year. The short-term requirements

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for BOD are currently being clarified and the options discussed, between the plant, the industrial council and the Ministry for the Environment.

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 the Environment 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.

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In 1998, an agreement was signed between the Ramat Hovav Council, the plants and university institutions, to finance research that would provide a basis for recommendations as to the action to be taken to halt any further pollution. In 2003, the research was concluded and its results were submitted to MA Industries. As of December 31, 2003, 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 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 2002, 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 and 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.

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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.

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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%-95% 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

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amount of development.

Organizational Structure

The following is a list of all of our significant subsidiaries and affiliates as of December 31, 2003, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.

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Name of Subsidiary/Affiliate	Country of Incorporation or residence	Percentage of ownership interest	Percentage of v power (if diffe from ownershi
Koor Corporate Venture Capital	Israel	100%	N/A
Elisra Electronic Systems Ltd.	Israel	70%	N/A
Makhteshim-Agan Industries Ltd.	Israel	48.6% (1)	N/A
ECI Telecom Ltd.	Israel	30.6%	N/A
Telrad Networks Ltd.	Israel	100%	N/A
Sheraton Moriah (Israel) Hotels Ltd.	Israel	55.0%	N/A
Knafaim-Arkia Holdings Ltd.	Israel	28.3%	N/A
Koor Trade Ltd.	Israel	100%	N/A

(1) On January 14, 2004, we sold 27 million shares in MA Industries for approximately NIS 418.5 million, or approximately NIS 15.5 per share. As a result of this transaction our ownership interest in MA Industries was reduced to 41.3%. In addition, as a result of the issuance of additional shares by MA Industries in June 2004 upon the conversion of convertible debentures, our interest in MA Industries was further decreased to 39.9% as of June 30, 2004.

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 sub let in its entirety.

The manufacturing facilities of our subsidiaries and affiliates are located throughout Israel. Major concentrations are in the Beersheva/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.

For all financial reporting periods until December 31, 2003, Israeli GAAP requires that our consolidated financial statements recognize the effects of inflation. Consequently, financial data for all periods 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 at the rate of exchange prevailing at the end of the period. See Note 2B to our consolidated financial statements included elsewhere in this annual report. For comparative purposes, financial data of prior periods for these companies are adjusted to reflect changes in the CPI between the prior periods and the most recent reported period. During periods when the rate of inflation in Israel differs significantly from the rate of devaluation of the NIS in relation to the dollar, application of inflation accounting to our financial statements creates distortions between the comparative financial data of subsidiaries whose functional currency is the dollar, as reported in the financial statements of those companies and as reflected in our financial statements.

Transactions between 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 contains 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

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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.

Adjusted Financial Statements

In accordance with Israeli GAAP, all NIS amounts in our financial statements included elsewhere in this annual report have been restated 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 Israeli Consumer Price Index, or CPI. The adjustments to our financial statements were made in accordance with the opinions of the Institute of Certified Public Accountants in Israel, or ICPAI and are based on the accounting records which are kept in nominal NIS or in other functional currencies. The amounts of non-monetary assets do not necessarily represent their realizable or current economic value, but rather the original historical cost of those assets in terms of adjusted NIS.

Non-monetary items have been adjusted on the basis of the changes in the CPI, from the CPI published for the month in which the related transaction was effected to the CPI published for the balance sheet month. Monetary items are included in the adjusted balance sheet as of December 31, 2003, at their historical amounts. The components of the statement of operations (except for financing), relating to transactions carried out during the year have been adjusted according to the CPI at the time the related transactions were effected. The components of the statement of operations relating to provisions included in the balance sheet are based on the changes in the balances of the related balance sheet items after their related cash flows were taken into account. The financing item, which is derived from the other items of the financial statements, reflects real financing income and expenses, as well as the erosion of monetary balances during the year, the earnings and losses from the realization of marketable securities and the earnings and losses from derivative financial instruments. Investments in investee companies and the equity in their results of operations, as well as the minority interest in subsidiaries and the share in their results, are based on the adjusted financial statements of those companies.

In addition, the financial statements of our subsidiaries and

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affiliates that use dollars as their functional currency are adjusted on the basis of the exchange rate of the dollar, in

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accordance with Section 29 of Opinion 36 of the ICPAI. For these companies, at each balance sheet date, the figures of the balance sheet for the year then ended are translated into shekels at the exchange rate for the dollar prevailing at the end of the year. The statements of operations for each year are translated into shekels at the exchange rate for the dollar prevailing at the end of each quarter. Balance sheet items as at the beginning of the year, and changes in capital during the year, are translated according to the exchange rate of NIS to dollars at the beginning of the year or at the date of the change, respectively, and are then adjusted for the changes in the CPI through December 31, 2003. Differences arising from the translation are included in a separate item of shareholders' equity under "Cumulative foreign currency translation adjustments, net."

As discussed below under "Recently issued accounting pronouncements in Israel," in accordance with Israel Accounting Standard No. 12 issued by the Israeli Accounting Standards Board, or IASB, which became effective as of January 1, 2004, we no longer adjust our financial statements for the inflationary effects of changes in the general purchasing power of the shekel. Instead, the inflation-adjusted amounts as of December 31, 2003 will serve as the basis for the nominal-historical financial reporting in the following periods.

Sale of trade receivables:

The Company recognizes the sale of trade receivables as a sale only when the control and the risks of the financial asset are transferred to the purchaser.

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 related to "projects in progress" under long-term contracts are recognized under the "percentage of completion" method (including revenues and costs in respect of partial deliveries) if we are capable of reliably estimating the revenues and costs required till completion. For contracts involving significant technological uncertainties, revenues are recognized on the basis of the "completed contracts" method. Revenues and costs relating to contracts on a "cost plus" basis (i.e. cost with the addition of profit at a fixed rate) are recognized when the costs are incurred. Periodic reporting on revenues and costs from projects in progress covers all cycle periods, including those where it is not possible to estimate anticipated profits at the reporting stage. However, if the refund of costs already incurred is anticipated, all costs incurred are attributed to the

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statement of operations as offsetting revenues in the amount of such costs.

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

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. Goodwill arising from the acquisition of equity in a non-consolidated subsidiary or affiliate is generally amortized at equal annual rates over a 10-year period, commencing from acquisition date. However, there are instances in which goodwill in a subsidiary is amortized over a 20-year period, based on our assessment that the circumstances in those instances justifies the longer amortization period.

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," 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. This Standard, 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, this 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, we recognize an impairment loss equal to the difference between the book value of the asset and its recoverable value. A loss is recognized in this manner will

be reversed only if changes have

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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. Goodwill deriving from acquisitions or investments is amortized over the period of economic benefit at equal annual rates over 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 2001, the Israeli Accounting Standards Board, or IASB, issued Israel Accounting Standard No. 12 - "Discontinuance of Adjusting Financial Statements for Inflation," which provided for the discontinuance of adjusting financial statements for the effects of changes in the general purchasing power of the shekel, as of January 1, 2003. In December 2002, Accounting Standard No. 17 was issued that postponed the date from which Accounting Standard No. 12 is to be applied until January 1, 2004. Until December 31, 2003, we have continued to prepare adjusted financial statements in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel, or ICPAI. The inflation-adjusted amounts as of December 31, 2003 will serve as the basis for the nominal-historical financial reporting in the following periods. Upon implementation of Standard No. 12, Clarifications Nos. 8 and 9 to Opinion 36 of the ICPAI will be canceled and will be replaced with effect from January 1, 2004 by Israel Accounting Standard No. 13 - "The Effects of Changes in Foreign Exchange Rates," which was issued at the same time as Standard No. 12. Most of the provisions of Standard No. 13 correspond to the provisions which appeared in Clarifications Nos. 8 and 9 to Opinion 36 of the ICPAI. The adoption of Standard No. 12 could have a material effect on our results of operations. The extent of the effect is dependent on the rate of inflation and the composition of our assets and sources of financing.

In March 2004, the IASB issued Israel Accounting Standard No. 20 - "Goodwill Amortization," which is effective for financial statements for reporting periods commencing on or after January 1, 2004. This Standard provides that goodwill must be amortized methodically over its useful life and that the amortization period must reflect the best estimate of the period in which the entity expects to derive future economic benefit from the goodwill. This Standard also provides that the amortization period may not exceed 20 years from the first date of recognition. The change in the amortization period of goodwill balances as of January 1, 2004 will be treated as a prospective change in estimates. Goodwill balances will be amortized

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methodically, over

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the balance of the period remaining until the end of the prescribed amortization period. We are currently evaluating the implications of the new Standard, and at this stage, we are unable to estimate the effect of this Standard on our financial statements.

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) -----
1999	168.53	1.3	NIS 4.153	(0.2)
2000	168.53	0.0	NIS 4.041	(2.7)
2001	170.91	1.4	NIS 4.416	9.3
2002	182.01	6.5	NIS 4.737	7.3
2003	178.58	(1.9)	NIS 4.379	(7.6)

- (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, 2003, the excess of our foreign currency denominated or linked

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monetary liabilities over our foreign currency denominated or linked monetary assets was NIS 2,078 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

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agreements as of December 31, 2003, see note 21 to our consolidated financial statements included elsewhere in this annual report. The caption "Financial expenses, net" in our consolidated financial statements includes the impact of these factors on monetary assets and liabilities, as well as regular interest expense.

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Results of Operation

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				002/2001 Changes	CPI - adjusted NIS		Trans in Dol
	2001	%	2002	%	%	2003	%	2
	(In thousands)		(In thousands)			(In thousands)		(In thou
REVENUES FROM SALES								
Telecommunication equipment	1,217,399	16.31	814,108	11.47	(33.13)	796,059	10.35	
Defense electronics	1,412,425	18.93	1,687,551	23.77	19.48	1,286,432	16.73	
Agrochemicals	4,101,360	54.95	4,140,471	58.32	0.95	5,191,913	67.51	1,
Venture capital investments								
Other	732,235	9.81	457,660	6.44	(37.50)	416,026	5.41	

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Total	7,463,419	100	7,099,790	100	(4.87)	7,690,430	100	1,
OPERATING EARNINGS:								
Telecommunication equipment	(212,742)	(55.73)	(178,623)	(34.43)	(16.04)	3,158	0.34	
Defense electronics	56,187	14.72	78,853	15.2	40.34	(4,294)	(0.46)	
Agrochemicals	587,050	153.79	658,507	126.93	12.17	949,290	102.61	
Venture capital investments	(8,293)	(2.17)	(7,894)	(1.52)	(4.81)	(1,445)	(0.16)	
Other	(40,490)	(10.61)	(32,062)	(6.18)	(20.82)	(21,536)	(2.33)	
Total	381,712	100	518,781	100	35.91	925,173	100	
Joint general expenses	(23,275)		(38,917)		67.21	(28,888)		
Total operating earnings	358,437		479,864		33.88	896,285		
CAPITAL EXPENDITURES:								
Telecommunication equipment	59,685	6.13	15,554	1.19	(73.94)	7,173	2.25	
Defense electronics	53,187	5.46	45,753	3.48	(13.98)	28,210	8.85	
Agrochemicals	821,754	84.37	1,241,091	94.53	51.03	277,195	86.94	
Venture capital investments	2,928	0.3						
Other	36,487	3.74	10,464	0.8	(71.32)	6,262	1.96	
Total	974,041	100	1,312,862	100	34.79	318,840	100	
DISCONTINUED ACTIVITY								
CORPORATE ASSETS	194		--		--	--		
	386		108		(72.02)	392		
	974,621		1,312,970		(34.72)	319,232		
EXPORTS OF KOOR PRODUCTS BY BUSINESSES (1)								
Telecommunication equipment	1,038,444	19.42	695,962	13.49	(32.98)	721,957	12.23	
Defense electronics	875,014	16.36	1,056,968	20.49	20.79	760,964	12.89	
Agrochemicals	3,354,813	62.73	3,404,650	66.02	1.49	4,419,795	74.88	1,
Venture capital investments	79,631	1.49			(100)			
Other								
Total	5,347,902	100	5,157,580	100	(3.56)	5,902,716	100	1,
DESTINATIONS (2)								
North America	1,225,494	16.42	1,125,925	15.86	(8.12)	1,152,009	14.98	
Europe	1,906,611	25.55	1,864,012	26.26	(2.23)	2,473,635	32.17	
South America	1,663,223	22.28	1,213,485	17.09	(27.04)	1,670,256	21.72	
Asia and Australia	923,134	12.37	1,123,387	15.82	21.69	1,050,873	13.66	
Africa	228,127	3.06	228,632	3.22	0.22	323,206	4.20	
	1,516,830	20.32	1,544,349	21.75	1.81	1,020,451	13.27	
Total	7,463,419	100	7,099,790	100	(4.87)	7,690,430	100	1,

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- (1) Including foreign industrial operations.
 - (2) Destination to which shipment is made.

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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.

Net sales. Net sales 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 77% of our net sales, increased 14.5% 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 net sales, 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 net sales, operating earnings increased from 6.8% in 2002 to 12.0% in 2003.

Finance expenses, net. Finance expenses, net decreased 44.1% to NIS 228 million in 2003 from NIS 408 million in 2002. The decrease in finance 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%.

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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:

- o 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

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

- o A NIS 107 million write-down of investments and assets, which includes an NIS 72 million write down of Koor CVC's investments. In 2002, we recorded an NIS 165 million write-down in the value of investments and assets, including a NIS 93 million write-down of Koor CVC's investments and an NIS 35 million charge following the write down of BVR Systems' goodwill;
- o 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
- o 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.

Taxes on income. Taxes on income 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. Taxes on income as a percentage of sales in 2003 and 2002 were 1.1% and 2.1%, respectively.

Equity in the operating results of affiliates, net. 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 subsidiaries, net. Minority interest in subsidiaries, net amounted to a gain of NIS 203 million in 2003 compared with a gain of NIS 60 million in 2002. The increase in minority interest in 2003

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derives mainly from MA Industries (NIS 122 million), Elisra (NIS 13 million) and Sheraton Moriah (NIS 12 million).

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Net income (loss). As a result of the above factors, we reported a net income 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
	(Adjusted NIS in thousands)	(\$ in t
Sales.....	814,108	796,059
Operating earnings (loss).....	(178,623)	3,158

Sales 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
	(Adjusted NIS in thousands)	(\$ in t

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Sales.....	1,687,551	1,286,432
Operating earnings (loss)	78,853	(4,294)

Sales 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 and were consolidated for the entire year in 2002, and which accounted for approximately NIS 123 million in sales in 2002.

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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 (Adjusted NIS in thousands)	2003	2003 (\$ in thousands)
Sales.....	4,140,471	5,191,913	1,185,639
Operating earnings.....	658,507	949,290	216,782

Sales 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 (manly 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 (Adjusted NIS in thousands)	2003	2003 (\$ in thousands)
Sales.....	--	--	--

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Operating earnings (loss)..... (7,894) (1,445) (330)

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, we had invested, through Koor CVC, approximately \$132 million in venture capital funds and start-up companies, excluding Koor CVC's initial investment in Scopus Network Technologies (formerly Tadiran Scopus). We do not consolidate any of the portfolio companies in Koor CVC. 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.

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Other Businesses

	Year Ended December 31,		
	2002	2003	2003
	(Adjusted NIS in thousands)	(\$ in thousands)	
Sales.....	457,660	416,026	95,005
Operating earnings (loss).....	(32,062)	(21,536)	(4,918)

Sales from our other businesses decreased 9.1% to NIS 416 million in 2003 from NIS 478 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 with 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.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

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.

Net sales. Net sales decreased 4.87% to NIS 7,100 million in 2002 from NIS 7,463 million in 2001. Exports and international operations, representing 80.4% of our net sales, decreased 5.0% in 2002 compared to 2001, primarily attributable to a decrease of approximately NIS 319 million in Telrad's sales as a result of the major decline in the international telecommunications market. Net sales were also affected by holdings whose results were not consolidated during 2002 and were consolidated in 2001, which amounted to approximately NIS 87 million. These decreases were partially offset by an increase in the sales of Elisra and of MA industries, by NIS 275 million and NIS 39 million, respectively, in 2002 compared to 2001.

Sales in our telecommunication equipment business decreased by 33.3% in 2002 compared to 2001 while sales in our agrochemicals, defense electronics businesses increased by 19.5%, 1%, respectively, over the same period. Our venture capital business did not record any sales in 2002 due to the deconsolidation of some companies.

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Gross profit. Gross Profit increased 5.1% to NIS 1,784 million in 2002 from NIS 1,698 million in 2001. The increase in gross profit is primarily attributable to improved profits at MA Industries (NIS 119 million), Elisra (NIS 50 million) and Telrad (NIS 31 million), which were partially offset by a decline in the gross profit of Tadiran Electronic (NIS 42 million) and Koor Trade (NIS 14 million). The increase in the gross profit was partially offset by holdings whose results were not consolidated during 2002 and were consolidated in 2001, which amounted to approximately NIS 26 million. As a percentage of net sales, gross profit increased from 22.7% in 2001 to 25.1% in 2002.

Operating earnings. Operating earnings increased 33.8% to NIS 480 million in 2002 from NIS 358 million in 2001. The increase in operating earnings is mainly due to a substantial drop in the operating loss of Telrad (NIS 78 million), paired with an increase in the operating earnings of MA Industries (NIS 71 million), Elisra (NIS 19 million), Sheraton Moriah and Isram,

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partially offset by a decline in the operating earnings of TEI (NIS 44 million), Tadiran (NIS 14 million) and Koor Trade. As a percentage of net sales, operating earnings increased from 4.8% in 2001 to 6.8% in 2002.

Finance expenses, net. Finance expenses, net decreased 5.6% to NIS 408 million in 2002 from NIS 432 million in 2001. The decrease in finance expenses in 2002 is primarily attributable to a decline in the finance expenses of MA Industries (NIS 26 million), Tadiran (NIS 25 million) and Sheraton Moriah (NIS 14 million), due to the repayment of financial liabilities. These decreases were partially offset by an increase in the finance expenses of Telrad (NIS 23 million).

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 shekel in relation to the dollar. During 2002, the shekel was devalued against the dollar by 7.3% while the CPI increased by 6.5%, compared to 2001, during which there had been a devaluation of 9.3% of the shekel against the dollar while the CPI increased by 1.4%.

Other income (expenses), net. Other income, net amounted to NIS 6 million in 2002 compared to other expenses, net of NIS 623 million in 2001. Other income, net in 2002 included: NIS 342 million capital gain, which included NIS 339 million from the sale of 30% of Elisra's shares to Elta, NIS 29 million from the sale of Tadiran's real estate, and a one-time gain from Koor Trade of NIS 35 million in connection with its receipt of a payment with respect to debt that was previously written-off as bad debt, compared to a NIS 60 million capital loss in 2001;

- o NIS 165 million write-down of investments and assets, which included a NIS 93 million write down of Koor CVC investments, a NIS 51 million expense recorded by MA Industries relating to the ongoing economic crisis in Argentina, a NIS 35 million loss representing Elisra's share in the write off of BVR Systems goodwill and a NIS 16 million expense relating to termination of the Elad hotel management agreement. During 2001, we recorded a NIS 396 million provision for the decline in value of investments and assets.
- o NIS 127 million provision for severance compensation, primarily at Telrad (NIS 98 million), MA Industries (NIS 15 million), and Elisra (NIS 14 million), compared to NIS 82 million in 2001.

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- o NIS 91 million goodwill amortization and write-off, primarily at MA Industries (NIS 78 million) and Elisra (NIS 13 million), compared to an NIS 83 million write off in 2001.

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 390 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.

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Taxes on income. Taxes on income increased 262% to NIS 141 million in 2002 from NIS 39 million in 2001. The increase is primarily attributable to Telrad (NIS 125 million, NIS 68 million of which were during the reporting period as a result of writing off a tax asset compared to a tax gain of NIS 52 million recorded in the same period last year), MA Industries (NIS 22 million), Elisra (NIS 13 million) and Koor Trade (NIS 6 million). These expenses were partially offset by a decline in tax expenses at Tadiran (NIS 20 million), TEI (NIS 19 million) Koor, and Koor Properties. The increase in tax expenses also derives from Koor following the exercise of a deferred tax asset relating to Elisra, following the sale of 30% of Elisra (NIS 116 million). Taxes on income as a percentage of sales in 2002 and 2001 were 2.2% and 0.5%, respectively.

Equity in the operating results of affiliates, net. Equity in the losses of affiliates, net in 2002 totaled NIS 252 million compared with NIS 1,895 million in 2001. This item includes mainly our equity share in the net loss of ECI, in the amount of NIS 246 million (including a NIS 25 million write-down of our investment in ECI), compared with NIS 1,881 million in 2001 (including a NIS 1,116 million write-down of our investment in ECI).

Minority interest in subsidiaries, net. Minority interest in subsidiaries, net amounted to a loss of NIS 60 million in 2002 compared with a gain of NIS 9 million in 2001. The increase in minority interest in 2002 derives mainly from MA Industries (NIS 65 million), Telrad's subsidiary Be-Connected (NIS 9 million), and Sheraton Moriah (NIS 9 million). This was offset by a decline in the minority interest for the full year of 2002 of BVR Systems (NIS 3 million), and Elisra (NIS 13 million).

Results of discontinued activities, net. Our operations in the construction and infrastructures segment effectively ended with the termination of the consolidation of United Steel Mills in 2001, and therefore the results of the segment were reclassified and stated in this item. The loss from discontinued operations in 2001 amounted to NIS 29 million.

Net income (loss). As a result of the above factors, we reported a net loss of NIS 767 million in 2002, compared to a net loss of NIS 2,651 million in 2001.

Telecommunications Equipment Business

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	Year Ended December 31,	
	2001	2002
	(Adjusted NIS in thousands)	(\$ in t
Sales.....	1,217,399	814,108
Operating earnings (loss).....	(212,742)	(178,623)

Sales from our telecommunication equipment business decreased 33.1% in 2002 to NIS 814 million from NIS 1,217 million in 2001. Telrad's sales decreased by NIS 320 million in 2002 primarily as a result of the declining telecommunications market.

Sales from our telecommunication equipment business attributable to sales of telecommunication equipment to Nortel were NIS 561 million in 2002 compared to NIS 669

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million in 2001, or 69% compared to 54% of total telecommunication equipment business sales in 2002 and 2001, respectively.

Telecommunication equipment business exports amounted to NIS 696 million in 2002 compared to NIS 1,038 million in 2001. The decrease of export sales resulted primarily in Telrad for the reasons discussed above.

Operating Loss decreased in our telecommunication equipment business from a NIS (213) million operating loss in 2001 to a NIS (179) million operating loss in 2002. The decrease resulted from a sharp decrease in sales at Telrad.

Defense Electronics Business

	Year Ended December 31,	
	2001	2002
	(Adjusted NIS in thousands)	(\$ in t
Sales.....	1,412,425	1,687,551
Operating earnings	56,187	78,853

Sales from our defense electronics business increased 19.5% to NIS 1,688 million in 2002 from NIS 1,412 million in 2001 primarily as a result of the increased demand for high tech military equipment and products as many countries have focused on improving their existing military equipment with new technology and investing in new high-tech military products and equipment.

Operating earnings from our defense electronics business increased 40.3% in 2002 to NIS 78.9 million from NIS 56.2 million in 2001.

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Agrochemicals Business

	Year Ended December 31,		
	2001	2002	
	(Adjusted NIS in thousands)		(\$ in t
Sales.....	4101,360	4,140,471	8
Operating earnings.....	587,050	658,507	1

Sales from our agrochemicals business increased 1% to NIS 4,140 million in 2002 from NIS 4,101 million in 2001, primarily as a result of increased sales of the MA group (see below). Approximately 90.9% and 90.6% of the sales in 2002 and 2001, respectively, were made outside of Israel, and approximately 27.9% and 36.4% of total sales in 2002 and 2001, respectively, were to South America.

The increase in the MA group's sales was primarily attributable to sales of new products, increases in sales of existing products and the reduction of manufacturing expenses as a result of internal restructuring and a decrease in raw material costs. These positive effects were partially

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offset by the reduction in sales to South America, a decrease in sales prices and the devaluation of the Brazilian Real and the Euro.

Operating earnings for our agrochemicals business increased 12.2% to NIS 658 million in 2002 from NIS 587 million in 2001 as a result of increased sales and savings in production costs.

Venture Capital Business

	Year Ended December 31,		
	2001	2002	
	(Adjusted NIS in thousands)		(\$ i
Sales.....	--	--	
Operating earnings (loss).....	(8,293)	(7,894)	

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, 2002, we had invested, through Koor CVC, approximately \$147 million in venture capital funds and start-up companies. The consolidated companies in our venture capital business did not have any sales in 2002, as a result of the termination of the consolidation of Tadiran Scopus Ltd., which accounted for all the sales of the consolidated companies in our venture capital business in 2001.

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Other Businesses

	Year Ended December 31,	
	2001	2002
	(Adjusted NIS in thousands)	
Sales.....	732,235	457,660
Operating earnings (loss).....	(40,490)	(32,062)

Sales from our other businesses decreased 37.5% to NIS 458 million in 2002 from NIS 732 million in 2001. This decrease was primarily attributable to the decline in sales of Sheraton Moriah and Isram as a result of the sharp decline of tourism in Israel due to increased hostilities in with the West Bank and Gaza.

Operating loss of our other businesses was NIS 32 million in 2002 compared to NIS 41 million in 2001, primarily due to the decrease in sales of Sheraton Moriah and Isram.

Quarterly Results

The following table presents unaudited quarterly financial information for each of the four quarters of the year ended December 31, 2003. Such information has been prepared on the same basis as our consolidated financial statements.

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	Quarter Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
	(in millions of U.S. dollars)			
Net sales.....	464	429	418	445
Gross profit.....	131	129	129	136
Research and development, net.....	60	47	54	60
Operating income (loss).....	49	50	52	54
Net income (loss).....	2	4	1	4

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

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customers, variations in distribution channels, mix of products, new product introductions, competitive pressures and general economic conditions.

Recent Developments

On January 14, 2004, we sold 27 million shares in MA Industries for approximately NIS 418 million, or approximately NIS 15.5 per share. The capital gain of NIS 160 million (before tax) is included in "other income". As a result of this transaction our ownership interest in MA Industries was reduced to 41.3%. A tax asset of NIS 59 million which had been created in 2003, because of the expectation that the brought forward tax losses would be utilized, will be realized as a result of this sale.

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. As of December 31 2003, Knafaim was not an interested party in El-Al as it held less than 5% of El-Al's issued share capital. However, at that date, it held options and had entered into voting agreements that would enable Knafaim in the future to attain control of approximately 52.8% of the voting rights in El-Al on a fully diluted basis. In January 2004, Knafaim approached the Israeli government to obtain its consent and approval to increase its holdings to more than 5% of El Al's issued share capital. In addition, Knafaim filed a merger notice on its holdings in El Al for the approval of the Commissioner of Restrictive Trade Practices. In March 2004, the board of directors of Knafaim resolved to exercise some of the options, the exercise of which could raise Knafaim's shareholding in El Al's issued share capital to 25.1%, subject to the approvals detailed above. Following the exercise of the options that had an exercise date of no later than June 3, 2004, Knafaim holds approximately 22% of the issued share capital of El Al and controls approximately 24.9% of the voting rights in El Al. On a fully diluted basis, if Knafaim were to exercise all its remaining options, its holdings could reach approximately 46.9% of El Al's share capital with control of approximately 52.8% of the voting rights. To date, the total cost of Knafaim's investment in El Al, including the purchases of shares and options and the exercise of options, amounts to \$44 million.

In order to finance the exercise of the options to purchase shares of El Al, in March 2004, Knafaim issued, through a private placement, debentures and options to purchase its shares for

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total proceeds of approximately NIS 135 million. If all of these options to purchase shares of Knafaim are exercised, our equity stake in Knafaim will be reduced to 25.04%

In March 2004, MA Industries issued non-marketable convertible debentures in a private placement to institutional investors in the amount of \$145 million par value, in consideration for their par value. Under the terms of the placement, the underwriters were given an option for an additional placement of \$5 million par value debentures at identical terms, which option was fully exercised. The debentures are for a 7-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 the company, of NIS 1.00 par value each, at a conversion rate of NIS 20.5 par value, according to a fixed exchange rate of NIS 4.514 per \$1.00. The ordinary shares to be issued as a result of the conversion of the debentures will be listed for trading on the Tel Aviv Stock

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Exchange. On March 22, 2007, the 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 share price of MA 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.

In April 2004, MA Industries, through a wholly-owned and controlled subsidiary, signed an agreement to acquire full ownership and control of a group of three companies: Farm Saver.Com LLC, Vegetation Management LLC, and Nations Ag II LLC, which are engaged in the registration, importing, and marketing of agrochemicals in the U.S. In consideration for the acquisition, the subsidiary will pay \$36.5 million in cash, and will transfer 1,908,000 shares of MA Industries (having a market value on the Tel Aviv Stock Exchange on the execution date of the agreement of approximately \$7.5 million). The subsidiary might have to pay in 2006 in respect of this acquisition, an additional amount of up to \$20 million, depending on the profitability of the acquired companies in the years 2004-2005.

In April 2004, Cisco Systems purchased all the shares of Riverhead Inc. from its shareholders for 39 million dollars. The share of Koor CVC in the proceeds is \$7 million. The gain to Koor CVC is NIS 18 million, before tax.

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, 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

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the sale of assets. In 2003, we had a profit before taxes of NIS 448 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 2003 and 2002, we received management fees in the amount of NIS 25 million and of NIS 36 million, respectively, and dividends in the amount of NIS 19 million and NIS 28 million, respectively.

Our shareholders' equity at December 31, 2003 increased 0.8% to NIS

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1,740 million, compared to NIS 1,727 million at December 31, 2002. The increase in 2003 was primarily due to the increase in our net income, our sale during 2003 of a significant portion of our shares to Hermes Investment Management Ltd. and our reversal of a NIS 74 million write-down in ECI we raised the value of ECI.

Working capital at December 31, 2003 was NIS 1,046 million compared to NIS 1,160 million at December 31, 2002 and NIS 1,859 million at December 31, 2001.

Long-term debt totaled NIS 3,460 million at December 31, 2003, or 29.1% of total assets on that date, compared to NIS 4,340 million at December 31, 2002, or 32.3% of total assets on that date. The decrease in the balance of long-term debt is attributed mainly to the repayment of long-term debt amounting to NIS 1,892 million. See note 15C(1) to our consolidated financial statements included elsewhere in this annual report.

Total debt at December 31, 2003 decreased 24.3% to NIS 5,038 million, or 42.4% of total assets, compared to NIS 6,655 million, or 49.5% of total assets, at December 31, 2002.

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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, 2003:

Contractual Obligations	Payments Due by Period		
	Total	Less Than 1 Year	1-3 Years
Debt From Banks.....	4,582	1,576	2,276
Debentures.....	340	--	--
Operating Lease Obligations.....	152	47	73
Other Obligations.....	115	1	22
Total Contractual Cash Obligations.....	5,189	1,624	2,371

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, 2003:

Other Commercial Commitments	Amount of Commitment Expiration Per Period			
	Total Amounts Committed	Less Than 1 Year	1-3 Years	4- Yea

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Guarantees(1).....	792	--	302
Commitments for the Purchase of Fixed Assets(2).....	50	15	35
Commitments for Investments in Venture Capital Funds(3).....	40	22	13
Total Commercial Commitments.....	882	37	350

- (1) Includes: (i) a guarantee Bezeq (Israeli telecommunications company) received from Koor in the amount of NIS 115 million; (ii) a guarantees totaling NIS 251 million issued by Telrad, one of our consolidated subsidiaries, to financial institutions for credit that its customers received; and (iii) guarantees by us for affiliates and other non-consolidated companies in the amount of approximately NIS 200 million. See note 22D to our consolidated financial statements included elsewhere in this annual report.
- (2) In 2001, several of our consolidated subsidiaries enter into long-term supply contracts with multi-national companies for a five-year period (2001 - 2006), pursuant to which the multinational company pays for a portion of the manufacturing costs.
- (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 1-5 years, based on their needs.

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Cash Flows

Cash and cash equivalents decreased by NIS 197 million in 2003 compared to 2002.

Cash flows from operating activities in 2003 were NIS 775 million, compared to NIS 427 million in 2002. The increase in the cash flow from operating activities stems mainly from net earnings of NIS 46 million in 2003 compared to a net loss of NIS 767 million in 2002.

Cash flows generated in investment activities in 2003 utilized NIS 267 million of cash, compared to NIS 257 million used in 2002. The investment in fixed assets, net after deduction of an investment grant, amounted to NIS 185 million, compared to NIS 253 million in the same period last year. The principal investments in fixed assets in the reporting period were in MA Industries and Elisra. Investment in intangible assets amounted to NIS 313 million in 2003, compared with NIS 811 million in 2002, mainly as a result of investments by MA Industries. Investments in venture capital companies amounted to NIS 14 million, compared to NIS 47 million in the corresponding period last year. Proceeds from divestitures and disposal of fixed assets contributed NIS 31 million to the cash flow generated in investment activities, compared to NIS 314 million in the corresponding period last year.

The net proceeds from sale of investments contributed NIS 124 million to cash flows generated from investment activities in 2003, compared to NIS 484 million generated in 2002.

In 2003, investment in affiliated companies, net, totaled NIS 6 million

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compared to NIS 14 million in 2002.

The investment in consolidated subsidiaries totaled NIS 1 million in 2003 compared to NIS 3 million in 2002.

Finance activities during 2003 consumed NIS 1,210 million, compared to NIS 224 million during 2002. Long-term loans received during the reporting period amounted to NIS 949 million, compared to NIS 1,551 million in the corresponding period in 2002. The loans were received at Koor (the parent company) and at MA Industries. Repayment of long-term loans in the reporting period amounted to NIS 1,892 million (including the refinancing activities at Koor (the parent company) compared to NIS 1,875 million in the same period last year. Loans were repaid mainly at Koor (the parent company), MA Industries, and Telrad.

Short-term credit, net, decreased by NIS 284 million in 2003, compared to a NIS 16 million increase in the same period last year. Most of the decrease was at MA Industries, Koor and Telrad.

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 -1.9% in 2003 as compared to 6.5% in 2002. At the same time, the appreciation of the NIS against the dollar was 7.6% in 2003 as compared to the depreciation of the NIS against the dollar by 7.3% in 2002.

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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."

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Item 6. Directors, Senior Management and Employees.

Directors and Senior Management

The following table sets forth, as of June 20, 2004, the name, age and position of each of our directors and executive officers:

Charles R. Bronfman	74	Chairman of the Board of Directors
Rolando Eisen(1) (2)	63	Director
Paulette Eitan(1) (2)	59	Director
Ron Feinstein(1)	67	Director
Andrew Hauptman	36	Director
Eli Hurwitz	73	Director
Chemi Peres	47	Director
Dan Propper	63	Director
David Rubner	65	Director
Prof. Gabriela Shalev(1)	63	Director
Jonathan B. Kolber	43	Chief Executive Officer
Danny Biran	62	President
Yuval Yanai	53	Senior Vice President and Chief Financial Officer
Aaron Zuker	59	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. Our External Directors were appointed in June 2002 and pursuant to the Companies Law, their terms will expire in June 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.

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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., Elite Industries Ltd. (External Director until July 2002), Merchav Building Materials Ltd., I.D.B. Holdings Ltd. (External Director) and Amidar Ltd. Mr. Eisen is the founder and Chairman of the

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Board of Green Market, a company in the area of direct delivery of grocery and other food products and is a shareholder ("interested") and director in Healthcare Technologies Ltd. which is traded on NASDAQ. 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. Mrs. 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. Mrs. Eitan serves as a board member in several companies, including Silicom Ltd., Pitkit Ltd. and A.On Line Capital Ltd. Mrs. Eitan has an MBA in Business from Tel Aviv University and a B.Sc. in Economics and Business from HEC-Paris. Mrs. 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 and Tadiran. From 1996 until 1998, Mr. Feinstein served as a Chairman of the Board of Radisson Moriah Hotels Ltd. Since 1992, Mr. Feinstein has 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.

Andrew Hauptman has been a director of Koor since November 1997. During the past five years, Mr. Hauptman was a Director of Business Development and Strategic Planning at Universal Studios Holdings (UK) Ltd. and at present he is the President of Andell Inc. Mr. Hauptman holds an MBA degree from Harvard University. Mr. Hauptman is the son-in-law of Charles R. Bronfman, our Chairman of the Board.

Eli Hurwitz has been a director of Koor since November 1997. Mr. Hurwitz is the President and Chief Executive Officer of Teva Pharmaceutical Industries Ltd. Mr. Hurwitz serves as a director of Teva Pharmaceutical Industries Ltd. and Vishay Intertechnology Inc.

Chemi Peres has been a director of Koor since June 2000. He is a Managing Director and Founder of Pitango Venture Capital (formerly Polaris Venture Capital originating in Israel), a venture capital fund. Mr. Peres is one of the pioneers of the venture capital industry in Israel. In 1992 he founded and managed Mofet Israel Technology Fund, an Israeli venture capital fund. Mr. Peres is the Chairman of the Board of WebGlide, and serves as a director in Orckit Communications Ltd., Aladdin Knowledge Systems Ltd and several other companies. Mr. Peres holds a B.Sc. in industrial engineering and management and a M.B.A. from Tel Aviv University.

Dan Propper is the Managing Director 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. Propper 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.

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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.

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David Rubner has been a director of Koor since June 2000. Mr. Rubner is Chairman and CEO of Rubner Technology Ventures Ltd. Mr. Rubner was employed with ECI from 1970 and was its President and CEO from 1991 to October 1999 and February 2000, respectively. Since November 1999, he has served as Vice Chairman of the Board of Directors of ECI. He serves as Chairman of the Board of Ectel Ltd., and as a director of VPS Ltd., Checkpoint Software Ltd., Efcon Ltd., Gigami Inc. and MKID Inc. Mr. Rubner holds a B.Sc. (Hons) in Engineering from Queen Mary College, University of London and a M.S. from Carnegie Mellon University. He is a member of the Presidium of the Israel Manufacturers Association and was a recipient of the Industry Prize for 1995.

Prof. Gabriela Shalev has been a director of Koor since February 1999. Prof. Shalev is a Contracts Law Professor in the Hebrew University in Jerusalem. Prof. Shalev also serves as a director of several other companies including Van-Lir Institute and Hadassah Hospital.

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 since November 1997 and 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 is Chairman of the Board of Telrad Networks Ltd and serves as a director of several Israeli companies, including ECI Telecom Ltd., Makhteshim-Agan Industries Ltd., Knafaim-Arkia Ltd. and R.M. Sheraton-Moriah Israel Ltd. Mr. Kolber has a Bachelor degree 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 Makhteshim-Agan Industries Ltd., Isrex (94) Ltd., Koor Properties Ltd., Koor Trade Ltd., R.M. Renaissance Management (1993) Ltd., Tadiran Electronic Systems Ltd., Tadiran Spectralink Ltd. and Dekolink Wireless Ltd. Mr. Biran is also a director of ECI Telecom Ltd., Knafaim-Arkia Ltd., Telrad Networks Ltd. and Sheraton-Moriah Israel Ltd. 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 Makhteshim-Agan Industries and Telrad Networks Ltd. Mr. Yanai holds a Bachelor degree in Accounting and Economics from the Tel Aviv University.

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 Makhteshim-Agan Industries, the Elisra Group (and its companies) and Telrad Networks. Mr. Zuker is also a director of Isrex (94) Ltd.,

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Clalcom Ltd.and Barak ITC (1995). Between the years

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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 2003 consisted of approximately \$2.3 million, in salaries, fees, bonuses, commissions and directors' fees and \$1.3 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. (3 directors in 2003) 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, 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 a decision of the General Meeting of Shareholders held on July 23, 2003, 7 directors (including the external directors) who are not associated with Claridge Israel L.L.C. and not related to the controlling shareholders, have been granted, each, 50,000 options under 2003 Stock Option Plan as described below.

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

Board Practices

Pursuant to our articles of association, the number of directors serving on the board is required to be not less than 5. 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.

External Directors

Under the Companies Law, which became effective on February 1, 2000, 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. This 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:

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

These directors must be residents of Israel. 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.

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. Each committee of our board of directors is required to include at least one external director.

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.

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Audit Committee

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 the appointment, compensation and oversight 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. We believe Mrs. Paulette Eitan, an External Director, qualifies as an "audit committee financial expert." See "Item 16A.Audit Committee Financial Expert."

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 an internal auditor, who is not an employee of ours, in accordance with the requirements of the Companies Law and his reports are submitted to and reviewed by the Chairman and to the audit committee. The audit committee follows up on the implementation of the recommendations of the internal auditor.

Employees

At December 31, 2003, we had approximately 6,328 employees worldwide, which represented a decrease of 8% from year-end 2002.

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
2001	5,447	1,247	336	203	64	7,297
2002	5,201	1,020	344	257	77	6,899
2003	4,605	993	311	329	90	6,328

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 to meet our requirements.

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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. Management believes that, upon expiration of such existing agreements, its subsidiaries will be able to negotiate, without material disruptions to our business, 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 business. In addition, we are subject to certain labor related statutes, and to certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations (including the Industrialists' Association of Israel) that are applicable to our Israeli employees by order of the Israeli Ministry of Labor and Welfare. These statutes and provisions principally concern the length of the workday and the workweek, minimum wages for workers, contributions to a pension fund, insurance for work-related accidents, determination of severance pay and other conditions of employment. Furthermore, pursuant to such provisions, the wages of most of our employees are automatically adjusted based on changes in the Israeli consumer price index, or CPI. The amount and frequency of these adjustments are modified from time to time.

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 15.63% of an employee's wages limited to a specified amount (according to a temporary order in effect from July 1, 2002 through June 30, 2003 the amount limit was temporarily suspended), of which the employee contributes approximately 62% and the employer contributes approximately 38%.

Labor Relations

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. Currently, most of our employees have individual employment agreements with us.

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

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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 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. 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, the provisions of these agreements will not remain in force in the period between the expiration and the signing of an alternative agreement.

In 2003, our total labor costs (including temporary employees) amounted to approximately NIS 1,345 million, which represented approximately 17.5% of our total net sales, as compared to NIS 1,461 million in 2002. The majority of our labor costs are denominated in NIS and are affected by the periodic changes in the inflation rate in Israel.

Our future success will depend significantly upon our ability to attract and retain highly skilled and qualified personnel. Although competition for such personnel is generally intense, we believe adequate personnel resources are currently available 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., our major shareholder, 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 20, 2004, our executive officers, in the aggregate, held options under our stock option plans to purchase up to 514,718 ordinary shares. The exercise price for these options is NIS 101.38 for 93,593 options and NIS 95 for 421,125 options per share and expire on December 31, 2010.

Employee Benefit Plans

As of June 20, 2004, options granted, or approved for grant, to all our directors and employees to purchase up to 1,023,195 ordinary shares were outstanding.

The 1997 Stock-Based Compensation Plan

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On May 27, 1997, 5,039 stock options were allotted under this plan, and on November 6, 1997 another 31,282 stock options were allotted and after exercise of some options, 13,519 options remained outstanding for exercise as of June 20, 2004.

On March 22, 2000, our Board of Directors resolved to amend the plan so that for an employee who resigned and who held stock options for which the date of entitlement to exercise arrived before his resignation, their exercise period would be until the end of the five years from the date of the inception of the plan.

On August 6, 2000, our Board of Directors resolved that for our employees who are not interested parties 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 date of its entitlement.

On November 15, 2001, our Board of Directors resolved that for our employees on the date of the resolution who are not interested parties, the exercise price of their stock options would be amended to NIS 101.38 per share. Our Board of Directors also resolved that the technical method of exercise would be the "Bonus Component Method" (see "The 1998 Stock-Based Compensation Plan" below).

As of June 20, 2004, 13,519 options were outstanding under the 1997 plan, 2,519 of which have an exercise price of NIS 101.38 and an expiration date of May 24, 2005 and 11,000 of which have an exercise price of NIS 101.38 and an expiration date of December 31, 2010.

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 allotted on different dates, and after expiration of some options and exercise of others, 54,726 options remained outstanding for exercise as of June 20, 2004.

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").

On March 22, 2000, our Board of Directors approved, with reference to stock option holders, under the 1998 plan, who are not interested parties, the amendment of the exercise period for employees who resign. Our Board of Directors also resolved that for these option

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holders, the exercise price would be adjusted in respect to the distribution of a dividend for all the options, even if the date of entitlement to exercise fell before the entitlement to the dividend.

On October 6, 2000, our Board of Directors approved the amendment of extension of the exercise period for our employees who are not interested parties and who did not retire before the end of 2000.

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On November 15, 2001 our Board of Directors approved the amendment of the exercise price to NIS 101.38 per share for our employees on the date of the resolution and who are not interested parties.

As of June 20, 2004, 54,726 options to purchase our ordinary shares were outstanding under the 1998 plan, 2,133 of which have an exercise price of NIS 101.38 and an expiration date of July 16, 2006 and 52,593 of which have an exercise price of NIS 101.38 and an expiration date of December 31, 2010.

The 2000 Stock Based Compensation Plan

On August 6, 2000, our Board of Directors approved the 2000 stock options plan, which was previously approved on August 6, 2000 by the Audit Committee of our Board of Directors. 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 allotted, and after expiration of some options and exercise of others, 36,667 options remained outstanding for exercise as of June 20, 2004.

The main points of the plan are as follows:

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

The exercise price of each stock option pursuant to the amendment by our Board of Directors on November 15, 2001, will be NIS 101.38 per share.

The options are designated for our employees who are not interested parties and will not become interested parties as a result of allotment of the stock options.

As of June 20, 2004, 36,667 options to purchase our ordinary shares were outstanding under the 2000 plan, 6,667 of which have an exercise price of NIS 101.38 and an expiration date of June 14, 2007 and 30,000 of which have an exercise price of NIS 101.38 and an expiration date of December 31, 2010.

The 2003 Stock Based Compensation Plan

On July 27 2003, our General Meeting of shareholders approved Stock Option Plan 2003, which had been approved previously by the Audit Committee of the Board of Directors and by the Board of Directors, on May 25, 2003 and June 5, 2003, respectively. A framework was approved for the allotment of 1,200,000 stock options exercisable for up to 1,200,000 of our

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ordinary shares, out of which 992,125 options have been allotted, and after exercise of some options, 918,283 options remained outstanding for exercise as of June 20, 2004.

The key points of the Plan are as follows:

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.

The exercise price of each stock option will be NIS 96 per share, linked to the CPI.

The options are designated for directors and employees who are not

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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.

The vesting of each offeree, to exercise the options for shares, will be graduated, over a three-year period from the record date, whereby at the end of each calendar half-year, one-sixth of the total number of options issued to the trustee on his behalf will vest.

Options not exercised by December 31, 2010 will expire.

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.

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.

As of June 20, 2004, 918,283 options to purchase our ordinary shares were outstanding under the 2003 plan, which have an exercise price of NIS 94.7 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 9,583,526 options, as of June 20, 2004, 7,816,474 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 have been allotted to the Chief

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Executive Officer and to directors of MA Industries, and following the exercise of some options, 3,397,146 options remained outstanding as of June 20, 2004.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

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MAJOR SHAREHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our ordinary shares as of June 30, 2004 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	PER OUTSTA BENEFICIA
Claridge Israel L.L.C. (3)	2,375,835	
Esarbee Investments Limited (4).....	2,271,167	
Hermes Investment Management Ltd. (5)	1,568,000	
All officers and directors as a group (15 persons) (6).....	1,006,208	

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- (1) Based upon 15,804,607 ordinary shares issued and outstanding on June 30, 2004, which amount excludes 193,229 ordinary shares held by us as treasury stock purchased in the open market during 2000 and 2001 (See Note 20B to our consolidated financial statements included elsewhere in this annual report) and according to Companies Law do not confer voting or distribution rights while held directly by us. 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 1997, 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) As of June 30, 2004, one of our wholly-owned subsidiaries held an aggregate of 15,799 of our ordinary shares and 12,950,864 of our Deferred Shares, par value NIS 0.001 per share. 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 our company, 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.
- (3) 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

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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 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.

- (4) 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 shares were pledged in favor of Bank Hapoalim as a guarantee for a loan that was given to Esarbee Investments Limited by Bank Hapoalim.

- (5) Hermes Investment Management Ltd., one of the largest fund managers in the United Kingdom, acquired these shares on behalf of Britel Fund Nominees Ltd. (1,043,000 shares) and Possfund Nominees Ltd. (525,000 shares), two well-known pension funds in the United Kingdom which are managed and controlled by Hermes Investment Management Ltd.

- (6) Includes options to purchase ordinary shares held by certain officers, exercisable within 60 days of the date of this Annual Report, 7,757 shares held by two directors and 547,902 shares, representing 3.47% of our outstanding 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 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 or the ordinary shares held by Anfield Ltd., which may be deemed beneficially owned by Jonathan B. Kolber as described in footnote 4 above.

As of December 31, 2003, we had 68 ADS holders of record in the United States, holding approximately 2.1% of our outstanding ordinary shares, as reported by The Bank of New York, the depository 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.

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ITEM 8. FINANCIAL INFORMATION.

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See "Item 17. Financial Statements" and pages F-1 through F-139.

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.

On January 31, 1996, a ruling was handed down by the Tel-Aviv District Labor Court completely rejecting the claims of the Engineers Union.

The Engineers Union has appealed the decision to the National Labor Court. At the opening of the hearing of the appeal, the Histadrut submitted a petition that we be added as a party to the proceedings. We contested the petition. On November 6, 2000, the National Labor Court handed down its decision whereby our petition was granted and we were not added as a party to the proceedings. However, the claim of the Engineers Union against Telrad was accepted.

Telrad has filed a petition to the High Court of Justice asking for rescission of the judgment of the National Labor Court.

On January 29, 2002, Telrad's appeal was dismissed, and the next stage in the proceedings is the evidential hearing before the Labor Court.

In 1999, a claim was filed against Telrad by our employees who are members of our workers' committee. They are suing for accounts so that the plaintiffs can examine the calculation of the distribution of profits to employees. They are also suing for a declaratory judgment which will determine that Telrad is obliged to draw up new accounts for the distribution of profits. In addition, a motion was filed to recognize the plaintiffs as the representatives of all of Telrad's workers and employees. The court dismissed the motion for a class action. A statement of brief has been filed.

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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 (Israeli Antitrust 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 Antitrust 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 December 13, 1998, the Investigations Department of the Israeli Office of Restrictive Trade Practices (Israeli Antitrust Authority) announced in a press release that it had concluded the investigation regarding allegations of illegal restrictive arrangements between us, Tadiran, TTL, Telrad, The Israel Telecommunications Corporation Limited, or Bezeq, and

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Bezeqcall Communications Ltd. in the field of the supply of public switches and in the Network Termination Point, or N.T.R., area.

On March 4, 2002, Tadiran (which committed to indemnify ECI on any damage resulting from the issues under review by the Israeli Antitrust Authority), TTL and Telrad received notice from the Israeli Antitrust Authority that it is considering the possibility of bringing each of these companies to trial for offenses against the Israeli Antitrust Law, as a result of the actions of these companies with regard to the supply of public switches between the years of 1993 and 1997. The Israeli Antitrust Authority's notice states that the allegations against Telrad and Tadiran in the field of N.T.R. are still being reviewed by the commissioner of the Israeli Antitrust Authority. We are currently negotiating with the Israeli Antitrust Authority in an effort to conclude the proceedings related to the Authority's investigation. See also note 18A to our consolidated financial statements included elsewhere in this annual report.

Under the Israeli Antitrust 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

One of MA Industries' plants is located in Ramat Hovav, along with other chemical plants, since the Government decided that the geological layers in that particular area are completely impenetrable to liquid or pollution. The Ministry of the Environment 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. In 1998, an agreement was signed between the Ramat Hovav

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Council, the plants and university institutions, to finance research that would provide a basis for recommendations as to the action to be taken to halt any further pollution. In 2003, the research was concluded and its results were submitted to MA Industries. As of December 31, 2003, 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. 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 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 2002, 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 and 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.

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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. In the estimation of Tadiran's management, based on the opinion of its legal counsel, Tadiran will not bear additional material expenses, beyond the provision included in the financial statements.

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CLAIMS FILED AGAINST MA INDUSTRIES AND ITS FOREIGN SUBSIDIARIES

A claim was filed against one of MA Industries' subsidiaries in Brazil, alleging that the subsidiary copied a certain process, which is a protected trade secret that is owned by the claimant. Accordingly, the subsidiary is being sued to indemnify the claimant for unfair competition, in the amount of \$9 million (based on a calculation involving the amount of materials used). In addition, the claimant has requested that a fine of \$25 per day be levied against the subsidiary for the unlawful exploitation of trade secrets. MA Industries' management estimates that the claim has no validity and, therefore, no provision has been included in the financial statements in respect thereto.

A claim was filed against several parties including a MA Industries subsidiary in Brazil, for an aggregate amount of \$31 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 subsidiary's management estimates that there is a reasonable likelihood that its defense against the claim will be accepted and, therefore, no provision has been included in the financial statements in respect thereto.

Claims and other monetary demands have been filed against MA Industries' subsidiary in Brazil, in the aggregate amount of \$18 million. Based on the opinion of its legal counsel, the subsidiary's management estimates that the chances of the consolidated company's success in the proceedings and its defense against the above claims and demands are high. The consolidated company believes that the provisions recorded in its financial statements are adequate to cover any possible damage which may result from these claims.

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CLAIMS FILED AGAINST KNAFAIM

On September 30, 1999, Knafaim, an affiliate, and the Ze'evi Group jointly signed an agreement with the government of Bulgaria and the Bulgarian Privatization Authority, to acquire 75% of the share of Balkan-Bulgarian Airlines, as part of the privatization process of the Bulgarian government (hereinafter - "privatization agreement"). On October 17, 1999, an agreement was signed between Knafaim and the Ze'evi Group, pursuant to which Knafaim transferred to the Ze'evi Group all of its rights and obligations pursuant to the privatization agreement (hereinafter - "the agreement"), and the Ze'evi Group undertook to obtain the consent of the Bulgarian government and the Bulgarian Privatization Authority to release Knafaim from its obligations toward them pursuant to the privatization agreement. The Ze'evi Group also undertook, pursuant to the agreement, that as long as the above consent is not obtained, the Ze'evi Group would discharge, at its expense, any claim lodged against Knafaim resulting from the privatization agreement, and would indemnify Knafaim for any direct damage it sustains as a result of the privatization agreement. The Bulgarian government and the Bulgarian Privatization Authority have not as yet given their consent to release Knafaim from its obligations toward it pursuant to the privatization agreement.

The government of Bulgarian has financial claims against Knafaim and the Ze'evi Group in respect of alleged breach of the privatization agreement. As of February 10, 2004, when the last letter of demand was received from the Bulgarian government, the total financial demands

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by the Bulgarian government from Knafaim and the Ze'evi Group in respect of the years 2000-2002 reach 20.6 million dollars. Knafaim sent a letter of response to the Bulgarian government on March 11, 2004, in which it denies outright its liability for the alleged damages, and gave its consent to the appointment of an arbitrator, agreed by Knafaim and the Ze'evi Group, without any admission of the allegations whatsoever. In the estimation of Knafaim's management, Knafaim and the Ze'evi Group have worthy defense arguments against the demands by the Bulgarian government, based on factors including the opinion of the Ze'evi Group's Bulgarian attorneys.

Likewise, the Ze'evi Group filed a claim against the Bulgarian government, which now stands at 70 million dollars, which is being heard as part of the international arbitration being held in Paris.

CLAIMS AGAINST SHERATON MORIAH

The financial statements of Herods Spa and Resort Hotels Ltd., or Herods, a company proportionately consolidated by Sheraton Moriah, were approved and signed by Sheraton Moriah's representatives on the board of directors of Herods (representing 50% of Herods' directors), but were not approved by the representatives of the other shareholders (representing the remaining 50% of Herods' directors). The representatives of the other Herods shareholders refuse to sign the financial statements given the dispute between the parties, as described below.

Sheraton Moriah's management, and its representatives on Herods' board of directors estimate that the financial exposure to Herods, or to Sheraton Moriah, if any, in relation to claims or demands on the part of the other shareholders, or their representatives on Herods' board of directors, is not material.

The other shareholders of Herods filed, with the Tel Aviv District Court, a "Request for the approval of a claim as a derivative action" against

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Sheraton Moriah and Sheraton Israel Ltd., a wholly-owned subsidiary of Sheraton Moriah that manages its hotels. The derivative action, for which they are seeking approval, is for the cancellation of the management agreement between Herods and Sheraton Israel 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 agreement. In the opinion of Sheraton Moriah and its legal counsel, at this initial stage, at which the claim has not yet been approved to be filed as a derivative action, it is not possible to estimate the outcome of these proceedings and/or the resultant exposure.

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.

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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		
1999.....	\$24.0805	\$15.4596
2000.....	22.0625	13.0000
2001.....	13.9375	4.1400
2002.....	7.2700	2.1000
2003.....	7.9600	2.0500
QUARTERLY 2002		
First Quarter.....	7.2700	4.4500
Second Quarter.....	5.3300	4.2000
Third Quarter.....	5.3200	3.5900
Fourth Quarter.....	3.5200	3.1000
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
MONTHLY 2004		
January.....	8.5700	7.3200
February.....	8.3000	7.2500
March.....	8.2900	7.4000
April.....	8.0000	7.5000
May.....	7.7500	7.0500
June.....	9.4500	7.3800

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On July 13, 2004, the last reported sale price of our ADSs was \$8.90 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.

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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				
1999.....	504.00	121.00	348.00	83.55
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
QUARTERLY 2002				
First Quarter.....	166.60	36.92	104.40	22.21
Second Quarter.....	130.40	26.20	101.30	20.70
Third Quarter.....	128.40	27.55	88.40	18.15
Fourth Quarter.....	87.30	17.96	48.60	10.26
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
MONTHLY 2004				
January.....	186.10	41.51	171.00	38.14
February.....	184.00	41.03	167.20	37.28
March.....	188.30	41.59	168.80	37.28
April.....	183.70	40.04	168.90	36.81
May.....	180.10	39.54	167.40	36.75
June.....	208.50	46.86	174.40	38.40

As of July 13, 2004, the last reported price of our ordinary shares on the TASE was NIS 199.60 (or \$44.50) 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, which has four members.

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

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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

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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:

- o Any amendment to the articles of association,
- o An increase of our authorized share capital,
- o A merger,
- o 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.

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(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

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settlement or arbitration decision approved by the court; and (2) any reasonable litigation expenses, including lawyer's fees required 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

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. One of our wholly-owned subsidiaries held, as of June 20, 2004, an aggregate of 15,799 of our ordinary shares and 12,950,864 of our Deferred Shares, par value NIS 0.001 per share.

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.

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

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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.

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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 dividend 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:

- o At the direction of the Board of Directors;
- o If so requested by two directors or 1/4 of the serving directors;
or
- o 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 meeting 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.

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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

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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

Under the Companies Law, a merger requires approval by the Board of Directors and by the shareholders of each of the merging companies. In approving a merger, the Board of Directors must determine that there is no reasonable expectation that, as a result of a merger, the merged company will not be able to meet its obligations to its creditors. Creditors may also seek a court order to enjoin or delay the merger if there is such an expectation that the merged company will not be able to meet its obligations to its creditors. A court may also issue other instructions for the protection of the creditors' rights in connection with a merger.

Under the Companies Law, a control share acquisition of a public company is prohibited unless a special purchase offer is made to all shareholders. Such a special purchase offer requires, among other things, that the Board of Directors either recommend that shareholders participate in the purchase offer or state why it cannot do so.

MATERIAL CONTRACTS

Elisra Share Purchase Agreement

On July 2, 2002, we entered into a purchase agreement with Elta and Elisra pursuant to which we sold 35,013,000 ordinary shares of Elisra to Elta for an aggregate consideration of \$100 million. As of the date of the agreement the number of shares purchased by Elta constituted 30% of the issued share capital of Elisra.

In addition, we granted to Elta a non-transferable option to purchase an additional 9,336,000 ordinary shares of Elisra, which constituted 8% of the issued capital of Elisra as of the date of the agreement, at an aggregate exercise price of \$26.4 million. Under the terms of the agreement, the option will be exercisable by Elta in two exercise periods. During each exercise period, the options are exercisable in full and one time only, as follows: (i) the option with

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respect to 3,5012,300 shares may be exercised at any time until the earlier of December 31, 2003 or 14 days prior to the expected closing date of an initial public offering of shares of Elisra; and (ii) the option with respect to 5,835,500 shares may be exercised at any time until the earlier of December 31, 2003 or 30 days after the closing date of an initial public offering of shares of Elisra. During the option periods, we must maintain the option shares free from any pledge, lien or third party right and/or claim. On December 31, 2003, this option expired unexercised.

Under the terms of the agreement, we will indemnify Elta with respect

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to any losses, in excess of \$2 million, sustained as a result of any incorrectness or infringement of any representation or declaration by us or Elisra.

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 provide reasoned notice within 4 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

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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

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liability. This provision will expire on the closing date of an initial public offering of shares of Elisra.

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 represents 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.

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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.

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:

- o 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;
- o 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;
- o 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
- o 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;

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- o 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

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 of 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)

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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 the New York Stock Exchange. This tax rate does not apply to: (i) dealers in securities; (ii) shareholders that report in accordance with the Inflationary Adjustment Law; or (iii) shareholders who acquired their shares prior to an initial public offering (that are subject to a different tax arrangement). 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.

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, 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.

In any event, the provisions of the Tax Reform will not effect the exemption from capital gains tax for gains accrued before January 1, 2003, as described above.

In some instances where our 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

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

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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.

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% 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,

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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.

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 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:

- o Are broker-dealers or insurance companies;
- o Are financial institutions or financial services entities;
- o Are tax-exempt organizations or retirement plans;
- o own directly, indirectly or by attribution 10% or more of our voting shares;

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- o hold ADSs as part of a straddle or a hedging or conversion transaction;
- o hold their ADSs through partnerships or other pass through entities;
- o have elected mark-to-market accounting; and
- o 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:

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- o an individual who is a citizen or, for U.S. Federal income tax purposes, a resident of the United States;
- o 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;
- o an estate whose income is subject to U.S. Federal income tax regardless of its source; or
- o 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.

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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.

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

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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,

- o 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,

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- o 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,
- o gain recognized upon the disposition of ADSs would be taxable as ordinary income and
- o 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.

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Based on our income, assets and activities for the year 2003, 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

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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 Securities and Exchange Act of 1934, as amended. We, as a "foreign private issuer" are exempt from the rules and regulations under the Securities 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 Securities 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 Securities and Exchange Commission as frequently or as promptly as U.S. companies whose securities are registered under the Securities Exchange Act. However, we will file with the Securities and Exchange Commission 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

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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. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

As of December 31, 2003, we have financial liabilities denominated in various currencies (primarily dollars). A fluctuation in currency prices is liable to affect our financing expenses.

We have consolidated foreign currency-linked financial liabilities of NIS 4,809 million, of which NIS 3,645 million is dollar-linked and the rest, NIS 1,164 million, is linked to other currencies (mainly the Brazilian Real).

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As of December 31, 2003, our net financial liabilities in foreign currency totaled NIS 2,078 million, of which total dollar-linked financial liabilities are NIS 2,082 million, and net financial assets linked to other foreign currencies (mainly the Brazilian real) amount to NIS 4 million. A portion of the currency exposure also stems from the export sales included in our consolidated statements, which include NIS 6,669 million, representing approximately 86% of our total consolidated sales, while a considerable portion of the expenses included in the consolidated statements are stated in Israeli currency.

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, 2003 include transactions with financial instruments that serve mainly as a hedge against currency exposure for the subsidiary companies.

During 2003, we bought dollars in exchange for other currencies in forwards, call options put options, and swaps, totaling NIS 325 million, NIS 808 million, NIS 510 million and NIS 158 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 NIS 85 million, NIS 275 million, NIS 692 million and NIS 266 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 INTEREST RATES

Some of our financial loans are denominated in variable interest rates that are liable to fluctuate from time to time. Our policy regarding exposure

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to interest rates is that each company in our consolidated group manages its own exposure.

As of December 31, 2003, our consolidated balance sheet contained loans and other liabilities in foreign currency (mainly in U.S. dollars) totaling NIS 4,809 million, and non-index linked shekel loans totaling NIS 994 million. As of such date, our consolidated balance sheets contained financial assets in foreign currency (mainly in U.S. dollars) totaling NIS 2,731 million and non-index linked shekel assets totaling NIS 565 million. Our net financial liabilities exposed to LIBOR interest rate fluctuations reached NIS 2,363 million as of December 31, 2003, while our net financial assets exposed to interest rate fluctuations in Israel amounted to NIS 42 million as of such date.

We engage in hedge transactions against interest rate fluctuations from time to time. As of December 31, 2003, these transactions totaled NIS 237 million.

As of December 31, 2003, our net liabilities exposed to fluctuations in the LIBOR interest rate amount to NIS 2,363 million. Should the LIBOR interest rate rise by 1%, our financing expenses would increase by NIS 24 million.

As of December 31, 2003, the net total of our loans exposed to fluctuations in the interest rate in Israel is NIS 42 million. Should the interest rate in Israel rise by 2%, our financing expenses would increase by NIS 0.4 million.

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We believe that a 1% increase in the LIBOR interest rate and in the shekel 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, 2003 of approximately NIS 277 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 28 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.

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PART II

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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 our 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 Securities Exchange Act of 1934, as amended) as of December 31, 2003. 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 Securities Exchange Act of 1934, as amended.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

We have determined Mrs. Paulette Eitan, an External Director and a member of the audit committee of our board of directors, meets the requisite qualifications of an "audit committee financial expert" (as defined in Item 16A of Form 20-F) and we expect our board of directors to make the same determination at its next meeting.

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: Yuval Yanai, Senior Vice President and CFO
Telephone: +011-972-3-900-8333

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Item 16C. Principal Accountant Fees and Services

Audit Fees: KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately \$2,064,000 for fiscal year 2003 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 2002, KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately \$1,628,000 for these services.

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Audit-Related Fees: KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately \$59,000 in fiscal year 2003 for assurance and related services reasonably related to the performance of our audit. In fiscal year 2002, KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately \$35,000 for audit-related services. These fees relate mainly to the issuance of comfort letters and special confirmations.

Tax Fees: KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately \$115,000 in fiscal year 2003 for tax compliance, tax advice and tax planning. KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately \$132,000 for tax-related services in fiscal year 2002.

All Other Fees: KPMG and its affiliates billed us and our consolidated subsidiaries an aggregate of approximately \$23,000 in fiscal year 2003 for products and services other than those comprising audit fees, audit-related fees and tax fees. These fees mainly relate to consultations regarding internal control documents. In fiscal year 2002, KPMG and its affiliates charged us and our consolidated subsidiaries an aggregate of approximately \$68,000 for products and services in this category.

Audit Committee Pre-Approval Policy and Procedures

Our audit committee is responsible, among other things, for the appointment, compensation and oversight 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 2003, 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.

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PART III

ITEM 17. FINANCIAL STATEMENTS.

See pages F-1 through F-139, incorporated herein by reference.

ITEM 18. FINANCIAL STATEMENTS.

Not Applicable.

ITEM 19. EXHIBITS.

EXHIBIT NO.	DESCRIPTION
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- 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 Purchase Agreement, dated July 2, 2002, by and among Koor Industries Ltd., Elta Systems Ltd. and Elisra Electronic Systems Ltd. ***
- 4.2 Shareholders Agreement, dated November 2, 2002, by and among Koor Industries Ltd., Elta Systems Ltd. and Elisra Electronic Systems Ltd. ***
- 8.1 List of significant subsidiaries.****
- 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.****

* 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.

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Koor Industries Ltd. (an Israeli Corporation)

Financial Statements as at December 31, 2003

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Auditors' Report to the Shareholders of
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, 2003 and 2002, and the related statements of operations, shareholders' equity and cash flows, for each of the three years, the last of which ended December 31, 2003. These financial statements are the responsibility of the Company's Board of

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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 20% and 15% of the total consolidated assets as at December 31, 2003 and 2002 respectively, and whose revenues constitute 19%, 20% and 48% of the total consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively. Furthermore, we did not audit the financial statement of certain affiliates, whose company's investments constitute NIS 218,081 thousand and NIS 231,815 thousand, as at December 31, 2003 and 2002, respectively, and its equity in losses constitute NIS 12,875 thousand, NIS 6,748 thousand and NIS 9,438 thousand for the years ended December 31, 2003, 2002 and 2001, 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 emanating from the financial statements of such investee companies, 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, 2003 and 2002 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, 2003, in conformity with accounting principles generally accepted in Israel.

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Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States (US GAAP). The implementation of US GAAP has an effect on the consolidated balance sheets as at December 31, 2003 and 2002, and on the statements of operations and statements of shareholder's equity for each of the three years the last of which ended December 31, 2003, as described in Note 28 of the financial statements.

As explained in Note 2B, the above-mentioned financial statements are presented in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with Opinions of the Institute of Certified Public Accountants in Israel.

As discussed in Note 18A(1) to the financial statements, there is an investigation which is being conducted by the Restrictive Trade Practices Authority, concerning the alleged coordination of operations within The Koor Group with respect to the products of its subsidiaries - Tadiran Ltd. and Telrad Networks Ltd.

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/s/ Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Isr.)

March 30, 2004

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Consolidated Balance Sheets as at December 31

In terms of shekels of December 2003

		December 31	
		2003	2002
	Note	NIS thousands	
	-----	-----	-----
Assets			
Current assets			
Cash and cash equivalents		593,403	790,099
Short-term deposits and investments	4	366,809	1,038,483
Trade receivables	5	2,052,461	1,986,877
Other receivables	6	452,170	452,900
Assets designated for sale	3B(2)	42,525	43,192
Inventories and projects in progress, net of customer advances	7	1,885,751	1,971,733
Total current assets		5,393,119	6,283,284
Investments and long-term receivables			
Investments in affiliates	8	943,764	1,041,296
Other investments and receivables	9	483,384	571,539
		1,427,148	1,612,835
Fixed assets	10	2,928,407	3,139,862
Intangible assets deferred tax assets and deferred expenses	11	2,121,083	2,396,817

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11,869,757 13,432,798
=====

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Koor Industries Ltd. (An Isr

In terms of shekels of December 2003

	Note	December 31	
		2003	2002
		NIS thousands	
		-----	-----
Liabilities and Shareholders' Equity			
Current liabilities			
Credit from banks and others	12	1,577,402	2,315,499
Trade payables	13	1,342,783	1,183,183
Other payables	14	1,270,217	1,394,455
Customer advances, net of project in progress	7	156,441	229,854
Total current liabilities		4,346,843	5,122,991
Long-term liabilities			
Net of current maturities:	15,21		
Bank loans		3,006,343	3,837,369
Other loans		113,494	104,705
Convertible debentures		-	397,504
Customer advances		194,094	262,897
Deferred taxes	16F	199,787	195,449
Liability for employee severance benefits, net	17	192,002	256,304
Total long-term liabilities		3,705,720	5,054,228

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Contingent liabilities and commitments	18		
Convertible debentures of subsidiary		340,270	-
Minority Interest		1,736,531	1,528,410
Shareholders' Equity	20	1,740,393	1,727,169
		11,869,757	13,432,798

March 30, 2004

Jonathan Kolber
Chief Executive Officer

Prof. Gabriela Shal
Member of the Board

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

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Company Balance Sheets as at December 31

In terms of shekels of December 2003

	Note	December 31	
		2003	2002
		NIS thousands	
Assets			
Current assets			
Cash and cash equivalents		9,205	24,791
Short-term deposits and investments	4	310,806	860,719
Short-term loans and current maturities			

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of loans to investee companies		16,480	98,966
Receivables:			
Investee companies		28,650	21,436
Others	6	67,774	49,159
Assets designated for sale	3B(2)	42,525	43,192
Total current assets		475,440	1,098,263
Investments and long-term receivables			
Investments in investees	8	3,453,066	3,646,594
Other investments and receivables	9	33,177	56,030
		3,486,243	3,702,624
Fixed assets, net	10	23,323	36,108
		3,985,006	4,836,995

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Koor Industries Ltd. (An I

In terms of shekels of December 2003

		December 31	
		2003	2002
	Note	NIS thousands	
Liabilities and Shareholders' Equity			
Current liabilities			
Credit from banks and others	12	588,535	785,866
Trade payables	13	503	1,258
Other payables:			
Investee companies		57	164,390
Others	14	43,266	78,062
Total current liabilities		632,361	1,029,576

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Long-term liabilities			
Net of current maturities:	15, 21		
Loans from banks and others		1,610,768	2,071,868
Liability for employee severance benefits, net	17	1,484	8,382
Total long-term liabilities		1,612,252	2,080,250
Contingent liabilities and commitments	18		
Shareholders' equity	20	1,740,393	1,727,169
		3,985,006	4,836,995

March 30, 2004

Jonathan Kolber
Chief Executive Officer

Prof. Gabriela Shalev
Member of the Board of Directors

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

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Koor Industries Ltd.

Consolidated Statements of Operations

In terms of shekels of December 2003

	Note	Year ended December 31	
		2003	2002
		NIS thousands	
Revenue from sales and services	23A	7,690,430	7,099,790
Cost of sales and services	23B	5,392,944	5,315,780

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Gross profit		2,297,486	1,784,010	1
Selling and marketing expenses	23C	940,457	814,777	
General and administrative expenses	23D	460,744	489,369	
Operating earnings		896,285	479,864	
Financing expenses, net	23E	228,200	408,437	
Other income (expenses), net	23F	(219,721)	5,824	
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	3B(1)	-	(390,901)	
Earnings (loss) before income tax		448,364	(313,650)	
Income tax	16G	85,372	141,179	
Group's equity in the operating results of affiliates, net	23G	(113,823)	(252,091)	(1)
Minority interest in subsidiaries, net		249,169	(706,920)	(2)
Net earnings (loss) from continuing activities		46,362	(766,969)	(2)
Result of discontinued activities, net	23H	-	-	
Net earnings (loss) for the year		46,362	(766,969)	(2)
		NIS	NIS	
Basic earnings (loss) per NIS 1 par value of ordinary shares:	26			
Continuing activities		2.950	(50.547)	
Discontinued activities		-	-	
		2.950	(50.547)	

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

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In terms of shekels of December 2003

	Note	Year ended December 31		
		2003	2002	
		NIS thousands		
Income				
Management services from subsidiaries		25,006	35,573	3
Others, net	23F	5,691	365,431	
Total income		30,697	401,004	3
Expenses				
General and administrative expenses	23D	41,164	48,136	4
Others, net	23F	-	-	5
Financing, net	23E	35,108	199,808	19
Total expenses		76,272	247,944	29
Earnings (loss) before income tax		(45,575)	153,060	(25)
Income tax		55,667	3,722	
Earnings (loss) after income tax		10,092	156,782	(25)
Koor's equity in the operating results of investee companies, net	23G	36,270	(923,751)	(2,36)
Results of discontinued activities, net	23H	-	-	(2)
Net earnings (loss) for the year		46,362	(766,969)	(2,65)
		NIS	NIS	
Basic earnings (loss) per NIS 1 par value of ordinary shares:	26			
Continuing activities		2.950	(50.547)	(17)
Discontinued activities		-	-	(
		2.950	(50.547)	(17)

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

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Koor Industries

Statement of Shareholders' Equity

In terms of shekels of December 2003

	Number of ordinary shares (1)	Share capital	Capital reserves	Company shares held by the company and subsidiaries	Cumula for curr transla adjustm
					NIS thousands
Balance at January 1, 2001	15,192,379	564,515	2,563,952	(272,458)	(702,500)
Changes during 2001:					
Net loss	-	-	-	-	-
Exercise of stock options granted to Israeli banks	-	-	147	-	-
Expiring options granted to Israeli Banks	(23,495)	-	-	-	-
Cumulative foreign currency translation adjustments, net	-	-	-	-	283,580
Balance at December 31, 2001	15,168,884	564,515	2,564,099	(272,458)	(418,920)

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

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

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Koor Industries L

Statement of Shareholders' Equity

In terms of shekels of December 2003

	Number of ordinary shares (1)	Share capital	Capital reserves	Company shares held by the company and subsidiaries	Cumul fo cur transl adjust
					NIS thousands
Balance at December 31, 2001	15,168,884	564,515	2,564,099	(272,458)	(418,9
Changes during 2002:					
Net loss	-	-	-	-	-
Exercise of stock options to employees	4,493	*-	-	-	-
Cumulative foreign currency translation adjustments, net	-	-	-	-	12,5
Provision for decline in value of autonomous investee (see Note 3A(1))	-	-	-	-	(105,1
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation (see Note 3B(1))	-	-	-	-	390,9
Balance at 31 December, 2002	15,173,377	564,515	2,564,099	(272,458)	(120,6
Changes during 2003:					
Net earnings	-	-	-	-	-
Exercise of stock options to employees	67,783	*-	-	-	-
Issuance of "treasury stock" (see Note 20B)	500,000	-	-	192,137	-
Cancellation of provision for decline in value of autonomous investee (see Note 3A(1))	-	-	-	-	73,4
Cumulative foreign currency translation adjustments	-	-	-	-	(149,5
Balance at December 31, 2003	15,741,160	564,515	2,564,099	(80,321)	(196,7

* 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.

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Koor Industries Lt

Statement of Shareholders' Equity

Convenience translation into US Dollars (Note 2B)

	Number of ordinary shares (1)	Share capital	Capital reserves	Company shares held by the company and subsidiaries	Cumula for curr transla adjustm
					NIS thousands
Balance at January 1, 2003	15,173,377	128,914	585,544	(62,219)	(27,542)
Changes during 2003:					
Net earnings	-	-	-	-	-
Exercise of stock options to employees	67,783	*-	-	-	-
Issuance of "Treasury stock"	500,000	-	-	43,877	-
Provision for decline in value of autonomous investee	-	-	-	-	16,762
Cumulative foreign currency translation adjustments	-	-	-	-	(34,152)
Balance at 31 December, 2003	15,741,160	128,914	585,544	(18,342)	(44,932)

* Represents an amount lower than US\$ 1,000.

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

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

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Koor Industries Ltd. (A

Consolidated Statement of Cash Flows

In terms of shekels of December 2003

	Year ended December 31		
	2003	2002	
	NIS thousands		
Cash flows generated by operating activities:			
Net earnings (loss) for the year	46,362	(766,969)	(2,
Adjustments to reconcile net earnings to net cash flows generated by operating activities (A)	728,413	1,194,420	3,
Net cash inflow generated by operating activities	774,775	427,451	
Cash flows generated by investing activities:			
Purchase of fixed assets	(193,424)	(260,119)	(
Investment grants in respect of fixed assets	8,482	7,583	
Amounts charged to intangible assets and deferred expenses	(313,125)	(810,649)	(
Additional investments in subsidiaries	(600)	(2,802)	
Acquisition of subsidiaries (B)	(14,372)	(92,746)	
Investments in affiliates	(6,316)	(13,652)	
Investments in loans to affiliates	(1,616)	(1,405)	
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 I	(14,182)	-	(
Proceeds from realization of activity of prior year	-	11,849	
Purchase of consolidated companies' shares by their consolidated companies	-	-	
Proceeds from realization of activities (D)	-	-	
Proceeds from disposal of investments in investee companies and others	123,742	484,355	
Proceeds from sale of fixed assets and intangible assets	30,998	314,396	
Investment in venture capital companies	(13,580)	(47,025)	(
Decrease (increase) in other investments	7,465	(58,406)	
Decrease in short-term deposits and investments, net	426,348	210,804	
Net cash inflow (outflow) generated by investing activities	266,585	(257,813)	(1,

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

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Koor Industries Ltd

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2003

	Year ended December 31	
	2003	2002
	NIS thousands	
Cash flows generated by financing activities:		
Proceeds from exercise of stock options granted to Israeli banks	-	-
Issuance of equity	43,011	-
Issuance of shares to minority interest in subsidiaries	14,137	2,928
Issue of preferred shares to minority interest of subsidiary	-	-
Dividend paid to minority interest in subsidiaries	(56,529)	(27,104)
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	-	136,210
Proceeds from principal of long-term loans and other long-term liabilities	949,392	1,551,258
Repayment of long-term loans, debentures and other long-term liabilities	(1,891,766)	(1,875,023)
Increase (decrease) in credit from banks and others, net	(268,028)	16,162
	(1,209,783)	(223,720)
Translation differences in respect of cash balances of autonomous foreign investee companies	(28,273)	3,056
	(196,696)	(51,026)
Decrease in cash and cash equivalents		
Balance of cash and cash equivalents at beginning of year	790,099	841,125

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Balance of cash and cash equivalents
at end of year

-----	-----
593,403	790,099
=====	=====

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

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Koor Industries Lt

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2003

Year ended December 31

-----	-----	-----
2003	2002	-----
-----	-----	-----
NIS 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	202,807	60,049
Equity in operating results of affiliates, net	113,823	252,091
Depreciation and amortization	440,856	423,580
Deferred taxes, net	(45,206)	64,479
Increase (decrease) in liabilities in respect of employee severance benefits, net	(49,822)	52,138
Net capital losses (gains) from realization:		
Fixed assets and intangible assets	22,863	(23,079)
Investments in formerly consolidated subsidiaries	(16,428)	-
Realization of activities	-	-
Investments in investee companies	(4,852)	(342,343)
Translation differences of autonomous investee in voluntary liquidation	-	390,901
Inflationary erosion (linkage) of principal of long-term loans and other liabilities	(77,510)	56,490
Inflationary erosion (linkage) of principal of credit from banks and others	(10,565)	(11,010)
Inflationary erosion of value of investments,		

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deposits and loans receivable	32,540	(19,749)	
Changes in value of assets and investments	70,503	143,400	
	-----	-----	-----
	679,009	1,046,947	2
	-----	-----	-----

The accompanying notes are an integral part of the financial statements

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Koor Industries Ltd

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2003

	Year ended December 31		
	2003	2002	
	-----	-----	-----
	NIS 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)	(218,826)	300,164	
Decrease (increase) in inventories, projects in progress and customer advances (including long-term customer advances and deposits)	(116,927)	52,251	
Increase (decrease) in trade payables and other payables	385,157	(204,942)	
	-----	-----	-----
	49,404	147,473	
	-----	-----	-----
	728,413	1,194,420	3,
	=====	=====	=====

B. Acquisition of subsidiaries

Assets and liabilities of the subsidiaries at date of acquisition:

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Working capital deficit (surplus), excluding cash and cash equivalents	(12,160)	6,516
Fixed assets and investments	(2,404)	(36,434)
Long-term liabilities	192	10,280
Contingent liability	-	18,516
Goodwill	-	(91,624)
	-----	-----
	(14,372)	(92,746)
	=====	=====

The accompanying notes are an integral part of the financial statements

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Koor Industries Ltd

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2003

Year ended December 31

2003	2002
-----	-----
NIS 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)	-
Minority interest in the subsidiary as at date of the sale	-	-
Investments in affiliated companies, net Consideration not yet received from	12,971	-

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consolidation of companies	-	-
Deficiency in capital of subsidiary without guarantee	-	-
Capital loss on sale of investments in subsidiaries	(790)	-
	-----	-----
	(14,182)	-
	=====	=====

D. Proceeds from realization of activities

Working capital surplus excluding cash and cash equivalents	-	-
Fixed assets	-	-
Realization proceeds receivable	-	-
Capital loss from realization of activities	-	-
	-----	-----
	-	-
	=====	=====

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Koor Industries Lt

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2003

	Year ended December 31	
	2003	2002
	NIS thousands	
	-----	-----
E. Non-cash transactions:		
Purchase of fixed assets by credit	24,514	10,680
	=====	=====
Purchase of other assets by credit	6,639	245,924
	=====	=====
Proceeds from sale of fixed assets, formerly consolidated subsidiaries and realization of activities	15,145	-
	=====	=====

Proposed dividend to minority shareholders

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by subsidiaries	15,446	-
	=====	=====
Investment in subsidiaries	-	-
	=====	=====
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	-
	=====	=====

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

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Koor Industries

Company Statements of Cash Flows

In terms of shekels of December 2003

	Year ended December 31	
	2003	2002
	NIS thousands	
	-----	-----
Cash flows generated by operating activities:		
Net income (loss) for the year	46,362	(766,969)
Adjustments to reconcile net income to net cash flows generated by operating activities (A)	(163,429)	310,315
	-----	-----
Net cash outflow generated by operating activities	(117,067)	(456,654)
	-----	-----

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Cash flows generated by investing activities:

Investee companies - acquisition of shares, payments on account of shares, loans granted\received and non-current accounts	287,237	6,251
Purchase of fixed assets	(392)	(108)
Decrease (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, net	102,875	454,752
Investment in short-term deposits and investments, net	460,818	197,446
	-----	-----
Net cash inflow (outflow) generated by investing activities	819,140	877,011
	-----	-----

Cash flows generated by financing activities:

Proceeds from exercise of stock options	-	-
Equity issuance	43,011	-
Receipt of long-term loans and other long-term liabilities	360,213	574,422
Payments of long-term loans and other long-term liabilities	(1,107,283)	(883,190)
Credit from banks and others, net	(13,600)	(148,154)
	-----	-----
Net cash (outflow) inflow generated by financing activities	(717,659)	(456,922)
	-----	-----

Increase (decrease) in cash and cash equivalents	(15,586)	(36,565)
Balance of cash and cash equivalents at beginning of year	24,791	61,356
	-----	-----
Balance of cash and cash equivalents at end of year	9,205	24,791
	=====	=====

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

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Koor Industries L

Company Statements of Cash Flows (cont'd)

In terms of shekels of December 2003

Year ended December 31

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	2003	2002	
		NIS 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	(17,120)	952,414	2
Depreciation and amortization	13,718	2,899	
Deferred taxes, net	(58,903)	(43,798)	
Increase (decrease) in liability in respect of employee severance benefits, net	(6,898)	5,643	
Net capital losses (gains) from realization:			
Fixed assets	96	(29,189)	
Investment in investee companies	(11,635)	(336,621)	
Increase in value of deposits and other erosions, net	(11,260)	(10,880)	
Exchange rate differences and erosion of long-term loans and other liabilities	(24,865)	29,083	
Erosion (linkage) of loans from banks and others	(10,526)	5,056	
Changes in value of investments and assets	673	10,037	
	(126,720)	584,644	2
Changes in operating assets and liability items:			
Increase in current accounts of investee companies, net	(43,975)	(270,044)	
Decrease (increase) in receivables	42,817	(18,118)	
Increase (decrease) in trade payables and other payables	(35,551)	13,833	
	(36,709)	(274,329)	
	(163,429)	310,315	2
(B) Significant non-cash transactions:			
Dividend in kind from investee company	-	244,067	
Proceeds from realization of affiliated company in capital note	-	27,373	
Investments in investee companies against current account of investee company, dividend and capital note	-	-	1
Purchase of company shares from investee company	-	-	

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

Koor Industries Ltd. (An Israeli Corporation)

Notes to 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, which differ in certain respects from those followed in the United States, as described in Note 28.

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. (hereinafter - "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 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

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give 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 (hereinafter - "ICPAI").

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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.
 - (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 published by the Central Bureau of Statistics.
 12. Dollar - United States Dollar.
- B. Adjusted financial statements:
 1. a) The Company prepared its financial statements on the basis of historical cost, adjusted for changes in the general purchasing power of the shekel.
 - b) The financial statements of the Koor Group are adjusted in accordance with the opinions of the ICPAI and are based on accounting records that are maintained in nominal NIS or in other functional currencies.

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- c) The non-monetary asset amounts do not necessarily represent their realizable or current economic value, but rather the historical cost of those assets adjusted for the changes in the general purchasing power of the NIS. The term "cost" in these financial statements means cost in adjusted NIS.
- d) All comparative data for earlier periods (including monetary item amounts) are stated adjusted to the CPI of the end of the present report period.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

- B. Adjusted financial statements: (cont'd)
- 2. The following principles of adjustment relate to those Koor Group companies whose financial statements were adjusted on the basis of the changes in the CPI:
 - a) Non-monetary items (mainly fixed assets, inventories and projects in progress and the related customer advances, intangible assets and deferred expenses and shareholders' equity items) have been adjusted on the basis of the changes in the CPI, from the CPI published for the month in which the transaction was effected to the CPI published for the balance sheet month.
 - b) Investments in investees and the equity in the results of their operations for the current year, as well as the minority interest in subsidiaries and the share in the results of their operations for the current year, are based on the adjusted financial statements of those companies.
 - c) Monetary items (items whose balance sheet amounts reflect current or realizable values at balance sheet date) are included in the adjusted balance sheet as at balance sheet date at their nominal value at that date.
 - d) The components of the statement of operations (except for financing), relating to transactions effected during the year - sales, purchases, labor costs, etc., have been adjusted according to the CPI in respect of the months in which the related transactions were effected. The erosion of monetary balances relating to the aforesaid transactions has been included in the financing item.

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- e) The statement of operations components deriving from non-monetary items (such as depreciation and amortization, changes in inventories, prepaid expenses and prepaid income), and components relating to the provisions included in the balance sheet (such as provision for severance pay and provision for vacation pay), were determined according to the changes in the balances of the relevant balance sheet items after taking into account the respective cash flows.
- f) The financing item, derived from the other financial statement items, reflects real financing income and expenses, as well as the erosion of monetary balances during the year, earnings and losses from the realization of marketable securities, and earnings and losses from derivative financial instruments (see also item 2U as follows).
- g) **Income tax:**
Current taxes consist of payments on account during the year in addition to amounts payable on the balance sheet date (or less amounts refundable as at the balance sheet date). Payments on account were adjusted according to the CPI prevailing on the date of payment, while the amounts payable (or being claimed as a refund) were included without adjustment.
Therefore, current taxes also include the expense deriving from the erosion of the tax payments, from the date of payment until the end of the year.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

- B. Adjusted financial statements (cont'd):
- h) A dividend declared and actually paid in the report year was adjusted on the basis of the CPI prevailing at the time of its actual payment; a dividend declared/proposed in the report year and not yet paid by the balance sheet date, is included without adjustment.
The amount shown as "erosion of a dividend declared in the preceding year" reflects the erosion in the real value of the dividend that was declared/proposed in the preceding year and actually paid in the current year.

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3. Adjustment of financial statements of investees whose functional currency is the Dollar:
- a. The financial statements of certain investees are adjusted on the basis of the exchange rate of the Dollar, in accordance with Section 29 of Opinion 36 of the ICPAI.

According to the provisions of Clarifications 8 to Opinion 36 of the ICPAI, year-end balance sheet balances were translated to Israeli currency at the exchange rate of the foreign currency, in which the financial statements of these companies are prepared, prevailing at the balance sheet date. The results of operations for the year were translated to Israeli currency at the exchange rate of the foreign currency, in which the financial statements of these companies were prepared, prevailing at the end of each quarter. Balance sheet balances at the beginning of the report year, as well as capital changes during the year, were translated at the relevant exchange rate to the NIS prevailing at the beginning of the year, or on the date of change, respectively, and later, were adjusted for changes in the CPI until the balance sheet month. This accounting treatment is relevant for autonomous overseas companies and for Israeli companies whose functional currency is the dollar.

Differences arising from the translation were included in a separate item of shareholders' equity under "Cumulative foreign currency translation adjustments".

- b. The financial statements of investees operating overseas which are "integrated units" of the Group, in accordance with the tests prescribed in the opinions of the ICPAI, are translated from foreign currency to NIS: non-monetary items are translated according to historical exchange rates and adjusted for the changes in the CPI, and monetary items are translated according to the exchange rate prevailing on the balance sheet date. Statement of operations items are translated according to average exchange rates and are adjusted for changes in the CPI. The differences resulting from the translation are charged to the financing item.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

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C. Principles of consolidation:

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 by the proportionate consolidation method.
2. Goodwill deriving from the acquisition of an investment, which represents the excess of acquisition cost or the investment in subsidiaries over the fair value of identifiable assets less the fair value of identifiable liabilities upon acquisition is amortized over the period of economic benefit at equal annual rates over 10 years to 20 years commencing from the acquisition date. The amortization of goodwill is included in "other expenses" item.

Differences resulting from changes in shareholding rates are charged to the statement of operations when they occur, except for changes deriving from the exchange of similar assets, which are debited/credited to goodwill and are charged to the statement of operations, for the benefit period, as above said.

3. Excess cost allocated to assets and liabilities is charged to the relevant balance sheet items.
4. Material inter-company transactions and balances items are eliminated upon consolidation. Likewise, material intercompany sales not yet realized outside the Group are eliminated.
5. Koor's shares, which were purchased by the Company and subsidiaries, are accounted for as treasury stock.
6. To the extent that the sale and/or exercise of convertible securities issued by investee companies is probable (including stock options to employees), in accordance with the criteria set forth in Opinions 48 and 53 of the ICPAI, and if the shareholding percentage of the holding company is expected to decrease upon their conversion or exercise, generating a loss to the holding company, an appropriate provision is included for such an anticipated loss.
7. For the purpose of the consolidation, the amounts included in the financial statements of the consolidated companies were included after adjustments necessitated by the application of the uniform accounting principles adopted by Koor's Group.

D. 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 to the revenues and expenses in the report period.

It should be clarified that actual results may differ from such estimates.

E. Cash and cash equivalents:

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

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

F. Marketable Securities:

- (1) **Marketable securities**
Investments in marketable securities held for the short term as a current investment are stated at stock market value 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 business, the industry in which the investee operates and other parameters. The write-down in the value of these investments, which management believes is based on an evaluation of all the relevant aspects and gives appropriate weight to them, and is not temporary, is charged to the statement of operations.

G. 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 fairness of the allowances, is 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 in respect of specific accounts whose collection is

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doubtful.

In addition, the financial statements also include such specific allowances for doubtful accounts in respect of trade receivables included in the subordinated capital note received as part of the securitization transaction.

H. 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 goods in process - mainly on the basis of direct manufacturing costs and, in part, on the basis of average manufacturing costs with the addition of indirect manufacturing costs. Merchandise - by the "first-in, first-out" method or by the "moving average" method.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

I. Projects in progress:

Projects in progress in long-term contracts are stated at cost net of amounts included in the statement of operations, by the percentage of completion method. Projects in progress are valued at direct production cost plus the related portion of indirect expenses, including capitalized financing costs, in accordance with the provisions of Accounting Standard No. 3. According to this Standard, financing costs for the production or construction of assets, for which the period of production or construction is a lengthy period of time, are capitalized to the asset, until the date revenues can be recognized from the asset.

The excess of the investment in inventories and projects in progress over related advances received is included in current assets, while the excess of advances received over investment in projects in progress is included in current liabilities.

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.

J. Venture capital investments:

The holdings of venture capital funds in venture capital investments are stated at cost, 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.

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K. Investments in investees:

The investments in investees are presented by the equity method. Goodwill arising from the acquisition of investments is amortized at equal annual rates over a 10-year period, commencing from acquisition date, other than goodwill in certain companies, which is amortized over 20 years, in light of the Company's assessment that the circumstances in those cases justifies such amortization.

From time to time the Company reviews its investments to identify if there has been a non-temporary decrease in their value. Such a review is conducted when there are signs that the value of permanent investments has been impaired, including a drop in stock market prices, the investee's continuous losses, the industry in which the investee operates, the value of the goodwill included in the investment and other parameters. The write-down in the value of this investment, which management believes is based on an evaluation of all the relevant aspects, giving appropriate weight to them, and is not temporary, is charged to the statement of operations.

See also Note 2Z.

A list of investee companies is presented as an appendix to the financial statements.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

L. Long-term receivables and liabilities:

Long-term receivables and liabilities bearing interest rates lower than the prevailing market rates at date of inception, are recorded at their present values.

M. 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 according to 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.

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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	

- N. Intangible assets and deferred expenses:
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 issuance costs:
These costs are amortized by the straight-line method over the life of the debentures - mainly six years.
 5. See Note 2C(2) regarding goodwill deriving from the acquisition of companies.
 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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

0. 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 under 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

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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.

P. 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 16F.
2. Deferred tax balances are computed by the liability approach, at the tax rate expected to be in effect at the time these taxes will be charged to the statement of operations as these are known proximate to the approval date of the financial statements.
The deferred taxes balance in the statement of operation 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 profits 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.

Q. Revenue recognition:

1. Projects in progress:

Revenues and costs related to projects in progress under long-term contracts are recognized by the percentage of completion method (the ratio between accrued costs and projected costs) if the Company is capable of reliably estimating the revenues and costs required until completion. For contracts involving technological uncertainties, revenues are recognized on the basis of the "completed contracts" method.

Revenues and costs relating to contracts using a "cost plus" basis (i.e. cost plus profit at a fixed rate) are recognized when the costs are incurred.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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Note 2 - Significant Accounting Policies (cont'd)

Q. Revenue recognition: (cont'd)

1. Projects in progress: (cont'd)

Periodic reporting on revenues and costs from projects in progress covers all cycle periods, including those where it is not possible to estimate anticipated profits at the reporting stage, although it can be determined that the recovery of costs already incurred is anticipated. In such circumstances, all the costs incurred are charged to the statement of operations against an equal amount of revenues ("Zero margin presentation").

Full provision is made for anticipated losses.

2. Sale of products and rendering of 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.

R. Sale of trade receivables:

The Company recognizes the sale of trade receivables as a sale only when the control and the risks of the financial asset are transferred to the purchaser.

S. Research and development:

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 in progress.

T. 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 interest-free unlinked loan having no maturity date received from the controlling shareholder, and that the parties do not intend to repay, is included in shareholders' equity.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

U. 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 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.

V. Earnings per share:

Earnings per share data are computed in accordance with Opinion 55 of the ICPAI. Taken into account in the computation of basic earnings 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 per share are convertible securities issued by the Company and its investees, which were not included in the computation of basic earnings per share, and their conversion or exercise does not increase earnings per share.

W. 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.

X. 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

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assets and are depreciation in accordance with the depreciation policies practiced by the Group.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

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

	Israeli CPI*	Exchange rate of one Dollar
	Points	NIS
For the year ended:		
December 2003	178.58	4.379
December 2002	182.01	4.737
December 2001	170.91	4.416
	%	%
Changes during:		
2003	(1.9)	(7.6)
2002	6.5	7.3
2001	1.4	9.3
	%	
Real rate of decrease in the CPI relative to the exchange rate of the Dollar during the year:		
2003	(5.7)	
2002	(0.8)	
2001	(7.9)	

(*) 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 for the balance sheet date, as published by Bank of Israel.

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.

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

Z. Impairment of assets

The Company applies Accounting Standard No. 15 - Impairment of Assets (hereafter - "the Standard") to ensure 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 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, from the date on which the last impairment loss was recognized.

AA. Influence of new accounting standards prior to their application

1. In July 2001, the Israel Accounting Standards Board ("IASB") published the following two new standards:

- a. Accounting Standard No. 12 - "Discontinuation of adjustment of financial statements for inflation". According to this standard, the adjustment of financial statements for the effects of changes in the general purchasing power of the shekel will be discontinued, commencing January 1, 2003.

In December 2002, the IASB published Standard No. 17, which prescribes that the implementation of Standard No. 12 will be postponed to January 1, 2004. Accordingly, the adjustment of the financial statements will be discontinued starting January 1, 2004. Until December 31, 2003, the Company will continue to prepare adjusted financial statements in accordance with Opinion No. 36 of the ICPAI. The adjusted amounts included in the financial

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statements as at December 31, 2003 will serve as the starting point for nominal financial reporting starting from January 1, 2004. The application of Accounting Standard No. 12 could have a material effect on the reported business results of the Company. The extent depends on the rate of inflation, the composition of the Company's assets and its financing resources.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

- AA. Influence of new accounting standards prior to their application (cont'd)
- 1. In July 2001, the Israel Accounting Standards Board ("IASB") published the following two new standards: (cont'd)
 - b. Accounting Standard No. 13 - "The effect of changes in foreign currency exchange rates". 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 supercedes the provisions in Clarifications 8 and 9 to Opinion No. 36 which are nullified upon Accounting Standard No. 12 coming into effect, as mentioned above, and will take effect on January 1, 2004.

The Standard prescribes principles for classifying overseas activities as an autonomous overseas unit or as an integrated unit, based on indications listed in the Standard and on judgment, as well as the way the financial statements of the autonomous units are to be translated.

The balance of goodwill created upon the acquisition of an autonomous overseas investee will be treated as an asset of that autonomous overseas investee, and will be translated at the closing rate, which differs from the principles presently applied, whereby goodwill is translated at the exchange rate prevailing at the time the transaction was effected.

The statements of operations of an autonomous overseas investee will be translated using the exchange rate prevailing at the time the transaction was effected, or for practical reasons, at the average exchange rate during the period, which differs from the principles presently applied, whereby the financial statements are

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translated at the closing rate, at the end of every quarter.

The write-down in value of an investment in an overseas autonomous investee does not constitute partial realization. Therefore, no part of the translation differences will be charged to the statement of operations when the value is written-down.

The application of Standard No. 13 could have a material effect on the reported operating results and shareholders' equity of the Company. The extent of the effect depends on the percentage of the increase in the inter-currency exchange rates in respect of the Company's autonomous investees.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

- AA. Influence of new accounting standards prior to their application (cont'd)
2. In March 2004, the Israel Accounting Standards Board (IASB) published Accounting Standard No. 20 on the goodwill Amortization Period (hereinafter - "the Standard"). The Standard provides that goodwill will be amortized methodically, over its useful life. The amortization period must reflect the best estimate of the period in which the entity expects to derive future economic benefit from the goodwill. The amortization period shall not exceed 20 years from the first date of recognition.

The Standard will apply to financial statements for periods beginning on or after January 1, 2004.

The change in the amortization period of goodwill balances as of January 1, 2004 will be treated as a prospective change in estimate. Goodwill balances will be amortized methodically, over the balance of the period remaining until the end of the prescribed amortization period.

The Company is evaluating the implications of the new Standard, but is unable, at this stage, to estimate the effect of the Standard on the financial statements.

Note 3 - Information Regarding Certain Investees

- A. ECI Telecom Ltd. ("ECI") - an affiliate
1. During 2001, indications were received of a change in ECI's fair value. These indications included valuations made by an

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independent appraiser for ECI.

In view of these indications, Koor's management decided, in 2001, to reduce the book value of the investment in ECI in respect of a non-temporary decrease in value in the amount of the balance of the goodwill, that had been allocated to the investment, of about NIS 1,106 million, placing the value of the investment at NIS 1,073 million as at December 31, 2001.

In the preparations of the financial statements for periods ended March 31 and June 30, 2002, the Company reviewed the need to write down the book value of the investment in ECI, in respect of a non-temporary decrease in value. This review is required by generally accepted accounting principles and in accordance with the guidelines published by the Israeli Securities Authority in November 2001, which lists eleven warning signs, the occurrence of which requires this review.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

A. ECI Telecom Ltd. ("ECI") - an affiliate (cont'd)

In view of the existence of two warning signs, the stock market price and the raising of capital at values below book value, the Company reviewed the investment, as described above. The review made by the Company, as part of its preparations of the financial statements as at June 30, 2002, was based on a valuation performed by an independent appraiser in March 2002 and on the development of ECI's business results from the valuation date until the date of the above financial statements.

The Company's management believes that the circumstances prevailing during these periods did not require the write-down of the investment as presented in the Company's financial statements at March 31 or June 30, 2002.

In November 2002, another valuation of ECI was performed by an independent appraiser. The appraisal estimated the value of ECI's shares, as at September 30, 2002, in a range between 4.6 dollars and 5.2 dollars per share. Based on this valuation, the Company's management decided to write-down the book value of the investment in ECI below its equity value to the Company. This write-down was charged in part against a capital reserve from foreign currency translation adjustments created in Koor in respect of its investment in ECI. As at December 31, 2002, the balance of the investment in ECI was approximately NIS 809 million. Reviews performed by the Company showed that since the valuation, and until June 30, 2003, there were no cumulative events in ECI indicating clear

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changes that could have a material adverse effect on the total value of the company as reflected in the valuation.

In November 2003, another valuation of ECI was performed by the same independent appraiser, for the purpose of evaluation the recoverable value of Koor's investment in ECI. According to this appraisal, the value of ECI's shares, as at September 30, 2003, was in the range of 5.5 dollars to 6.35 dollars per share. Taking into account the stock options that ECI had issued to its employees, the value of ECI's shares ranged between 4.95 dollars and 5.7 dollars per share. In view of the results of the valuation, the investment in ECI, as at September 30, 2003, is stated by the equity method (5.26 dollars per share). Accordingly, the Company 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.

As at December 31, 2003, the balance of the investment in ECI is about NIS 726 million.

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 with respect to any claim to be filed by any third party against the appraiser, the cause of action of which is the valuation.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- A. ECI Telecom Ltd. ("ECI") - an affiliate (cont'd)
2. In its financial statements as of December 31, 2003, ECI reported on a retroactive restatement of its financial statements for 2002, relating to a decrease in its investment in an affiliate (received in exchange for the transfer of certain assets), having an effect on the Company of about 2 million dollars.

The amount of the restatement was taken into account by the Company, when it included in the third quarter of 2002 a provision for decline in value of its investment in ECI, based on a valuation obtained from an independent appraiser, as discussed in section A(1) above. Therefore, this restatement in the financial statements of ECI has no effect on the financial statements of the Company in 2002.

3. During 2002, ECI's Board of Directors decided to focus ECI's activities on its core businesses: access networks (Inovia)

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and transmission systems and optical networks (Enavis, Lightscape). Consequently, it was decided to divest Innowave.

In April 2003, an agreement was signed between ECI and Alvarion, pursuant to which ECI sold to Alvarion the business operations and most of the assets and liabilities of Innowave Systems Ltd. (a subsidiary of ECI) for total consideration of about 20 million dollars. In addition, ECI received an option to purchase 200 thousand shares of Alvarion at a price of 3 dollars per share, for a five-year period.

Likewise, in 2002, ECI signed an agreement with unrelated investors to spin-off NGTS' operations into a new company, in which ECI would hold 43%. ECI invested 10 million dollars in the new company.

4. In 2003, ECI's books of account included an allowance for doubtful accounts of 6.6 million dollars (2002 - 34 million dollars) in respect of a long-term receivable, the collection of which is in doubt. The balance of the receivables, as at December 31, 2003, before the allowance, is 133 million dollars. In addition, ECI recorded a provision of 3.4 million dollars (2002 - 18 million dollars) for the decline in value of its investments in the convertible bonds of the parent company of this customer.
5. On December 6, 2001, a private placement agreement was signed between ECI and a group of investors, whereby 12.5% of ECI's share capital was allotted to those investors in consideration of approximately 49 million dollars. The transaction was closed in February 2002, after which Koor's holding in ECI decreased by 4.3%. Koor recorded a loss of approximately NIS 71 million in its financial statements for 2001 in respect of this allotment

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- A. ECI Telecom Ltd. ("ECI") - an affiliate (cont'd)
6. During December 2002, pursuant to the Company's decision to concentrate its public holdings, Koor sold 3 million ECI shares to a wholly-owned subsidiary at the stock exchange price. The transaction was treated in accordance with the Israeli Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder) - 1996. Likewise, in January 2003, the Company transferred the balance of the ECI shares (about 30 million shares) to the subsidiary, under Section 104.A of the Income Tax Ordinance, in consideration for an allotment

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of shares in the subsidiary.

7. Some of ECI's present and future liabilities to banks are secured by liens on certain assets and rights, as well as an unlimited negative pledge on ECI's assets. As a condition for further bank credit and in accordance with the terms of the negative pledge, ECI undertook to comply with a certain financial ratios. Since October 1, 2002, ECI has failed to comply with some of these financial ratios and, therefore, the banks are entitled to demand the immediate repayment of all the loans. Accordingly, long-term loans were reclassified as current liabilities. During the second quarter of 2003, under the terms of the agreement signed with the banks, ECI repaid debt of about 123 million dollars, and new financial ratios were prescribed, with which ECI is in compliance, such as the ratio of equity to liabilities, current assets, and, beginning in 2004, certain ratios with respect to operating income. Accordingly, the liabilities to banks were included in long-term debt.
 8. ECI prepares its financial statements in accordance with generally accepted accounting principles in the U.S. For adjustment of ECI's net loss as reported in accordance with U.S. generally accepted accounting principles (US GAAP) to the net loss according to Israeli accounting principles - see Note 28A(19).
- B. Tadiran Ltd. (in voluntary liquidation) ("Tadiran") - a subsidiary
1. On March 7, 2002, Tadiran's Board of Directors adopted a resolution for the voluntary liquidation of Tadiran and the appointment of 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.
 2. In March 2002, Tadiran's real estate was transferred to Koor as a liquidating dividend. Most of the real estate assets were sold to a group of investors headed by Denisra International Ltd. and Ranitech Ltd. The consideration amounted to approximately NIS 273 million, and the capital gain was about NIS 29 million.

As a result of the sale of the real estate, a tax reserve of about NIS 44 million, created in respect of those assets, was realized, and taxes of approximately NIS 40 million were paid.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a subsidiary
1. In October 2001, M-A Industries and some of its subsidiaries ("the Selling Companies") entered into a securitization arrangement, for the sale of all their trade receivables, without right of restitution (except for commercial disputes), to foreign companies established for that purpose and which are neither owned nor controlled by M-A Industries ("the Purchasing Companies"). Purchase of the receivables was financed by an American company from the Bank of America Group, including through the issuance of commercial papers. The amount expected to be at the disposal of the Purchasing Companies is approximately 150 million dollars on a current basis, so that the consideration received from the customers whose receivables were sold will be used to purchase new receivables. The selling companies will handle the collection of the sold receivables for the Purchasing Companies. Under the securitization agreement, the receivables of customers from South American countries were not sold. The cash balance of trade receivables sold as at the balance sheet date amounted to approximately 125.3 million dollars (December 31, 2002 - 101.8 million dollars).

On the purchase date of the receivables, the Purchasing Companies 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.

Under the securitization agreement, M-A Industries undertook to maintain certain financial criteria relating mainly to the liabilities to capital ratio, liquidity and profitability ratios. As at the balance sheet date, M-A Industries complies with these terms.

2. During 2001, subsidiaries of M-A Industries acquired four new agrochemical products, as well as the marketing and distribution rights for a package of products in Scandinavian countries, from Aventis and Syngenta. The acquisition cost was approximately 105 million dollars, and is included under the item "Intangible assets and deferred expenses". Approximately 20 million dollars was allocated to registration and license costs and is amortized over 20 years, while 2.5 million dollars was allocated to the acquisition of agreements with third parties and is amortized over 10 years. The amortization is included under the item "Selling and marketing expenses". The consideration for acquisition of marketing and distribution rights amounted to approximately 5 million dollars and will be amortized over 9 years. The balance of the cost is allocated to "Purchase of a Product as a Going Concern", which includes intellectual property rights, trademark, brand, technological know-how, customer information, raw material suppliers, etc. which is amortized over 20 years in the item "Other income (expenses), net". Under the terms of the agreements, if sales of some of the products will increase by certain percentages in the three years following execution of the agreements, additional consideration will be paid, which could reach approximately 8.3 million dollars. As at the approval date of the financial statements, M-A Industries estimates that the additional

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consideration will not be paid, since the turnover did not reach the required amount.

In April 2002, a subsidiary purchased a new herbicide from Syngenta, for consideration of approximately 10 million dollars.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a subsidiary (cont'd)
3. In December 2001 an agreement signed in August 2000 between an M-A Industries Group company and the minority shareholder of an M-A Industries' subsidiary in Brazil ("Millenia"), for the acquisition of all their shares, which represented about 28.5% of the shares of Millenia, was completed. Following the acquisition, M-A Industries has full ownership and control of Millenia.

The acquisition consideration is approximately 45.2 million dollars and 1.5 million shares of M-A Industries Ltd.

The excess cost created by the acquisition amounts to about 32 million dollars, which was allocated to goodwill and is amortized over 20 years.

4. In December 2001, a sudden deterioration in the economic and political situation in Argentina led to the paralysis of the country's political and economic systems, along with almost complete uncertainty about the future. In February 2002, the government of Argentina announced a devaluation of 29%, as a result of which the assets of the subsidiary in Argentina (mainly trade receivables and other accounts receivable) eroded in 2001 by approximately 15 million dollars. In addition, due to the economic and political situation in Argentina, M-A industries included a one-time allowance of approximately 8 million dollars in 2001, mainly on account of bad accounts.

The recession in Argentina continued in 2002 and the peso was devalued further by approximately 98%.

In July 2002, the government of Argentina published regulations setting the various exchange rates for the linkage of trade receivables to the dollar, so that trade receivables deriving from the sale of agricultural inputs denominated in dollars would be paid at the dollar exchange rate applicable on the date of payment, less discounts ranging from 25% to 60%, which were determined according to the products for which the agricultural inputs were used, as

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defined in those regulations.

Due to the ongoing devaluation and economic crisis in Argentina, and in view of the experience gained in the implementation of the regulations published by its government, M-A Industries included an allowance of about 10.8 million dollars in 2002 in respect of bad accounts and a provision in respect of erosion of the subsidiary's assets in Argentina.

The management of M-A Industries assesses that no further material effect is expected on the operating results and financial position of the subsidiary in Argentina. M-A Industries and its subsidiaries are guarantors for the subsidiary's liabilities to the banks in Argentina totaling about 13 million dollars.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a subsidiary (cont'd)
5. In April 2002, a subsidiary of M-A Industries acquired the entire share capital of a German company that markets pesticides - Feinchemie Schwebda GmbH ("Feinchemie"). The acquisition cost was approximately 20.4 million dollars, and the consolidated company may be required to pay an additional sum of up to 5 million euro, based on Feinchemie's sales in 2002 and 2003. Based on the actual sales turnover during those years, the sum of 5 million euros was paid subsequent to the balance sheet date.

Excess cost created on the acquisition date totaling approximately 20 million dollars (including 4 million dollars created against a contingent liability taking into account management's estimate with regard to the profits of Feinchemie, as aforesaid), was allocated to goodwill and amortized over a 20-year period, in accordance with the circumstances and characteristics, which, in the opinion of the management of M-A Industries, justify amortization over this period.

6. In October and November 2002, foreign and domestic subsidiaries of M-A Industries ("the Purchasing Companies") signed a number of agreements with Bayer Crop Science AG, one of the largest agrochemical companies in the world, for the purchase of several agrochemical products, licenses and distribution rights, for 185.3 million dollars (approximately 131 million dollars was paid in cash in 2002 and the balance was paid in cash in 2003) and will be allocated as follows:

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Approximately 34.6 million dollars to the purchase of the registrations and licenses and is amortized over a 20-year period.

Approximately 144.1 million dollars to the purchase of products as a going concern, is amortized over a 20-year period.

Approximately 6.6 million dollars was allocated to marketing and distribution rights and is amortized over periods of 6-8 years.

The agreement took effect upon approval by the representative of the European Union, some of which were received in February 2003.

7. In April 2003, a subsidiary of M-A Industries signed an agreement to acquire the share capital and shareholder loans of an English company engaged in the blending and marketing of vitamins - Nutriblend Ltd. ("Nutriblend"), in consideration for approximately 3 million euros. The effect of the first-time consolidation of Nutriblend is immaterial.
8. In April 2001, the board of directors of M-A Industries decided 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, in 2003, a dividend was declared and paid, in the amount of 26.1 million dollars. A dividend of 7 million dollars was declared in December 2003 and paid during January 2004.
As of the balance sheet date, another dividend was declared in respect of the earnings of 2003, in the amount of 7.2 million dollars.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a subsidiary (cont'd)
9. In June 2003, Koor sold 9,357 thousand shares of M-A Industries on the stock market, for total proceeds of approximately NIS 104 million, at a gain of about NIS 17 million. As a result of the sale, Koor's holding percentage in voting rights fell to 49.79%.
In the opinion of the Company's management, based on its legal counsel, in view of the fact that Koor's shareholding percentage is about one half of the voting rights in M-A Industries, taking into account the broad dispersal of the voting rights among the other shareholders, Koor continued

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to be the controlling shareholder in M-A Industries. In August 2003, Koor signed non-temporary voting agreements with two of the shareholders in M-A Industries that hold 3.87% of the voting rights in M-A Industries, whereby the above shareholders undertake to vote together with Koor, and in accordance with its vote, in any resolution to be discussed, or to vote together with Koor at any general meeting of shareholders of M-A Industries.

Accordingly, Koor continues to include the financial statements of M-A Industries in its consolidated financial statements.

The Company's shareholding percentage in M-A Industries as at December 31, 2003 is 48.59%.

Assuming conversion and exercise of all the convertible securities issued and allotted by M-A Industries, the Company's shareholding percentage in M-A Industries fell to 42.11%.

10. On January 14, 2004, Koor sold 27,000 thousand shares of M-A Industries in consideration for approximately NIS 418.5 million. The sale will generate a capital gain to the Company in the first quarter of 2004 of 37 million dollars, and the Company's percentage in the voting rights of M-A Industries will fall by 7.3%.

As a result of the sale, and in view of the proven utilization of carryforward losses, a tax asset of NIS 59 million was recorded in 2003.

- D. Telrad Networks Ltd. ("Telrad") - a subsidiary

1. In 2000, Koor and Telrad invested 5.6 million dollars in the share capital of Nortel Israel, for 28% of the rights to earnings, without voting rights. Koor and Telrad also made available shareholder loans in favor of Nortel Israel in the amount of 43 million dollars, bearing interest of 6% per annum.

During 2003, Koor and Telrad exercised an option given to them in 2000 for the sale of their investment in Nortel Israel to Nortel Networks, for consideration of approximately NIS 17.6 million. In addition, loans were repaid by Nortel. As a result, the Company sustained a capital loss of about NIS 6.3 million.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- D. Telrad Networks Ltd. ("Telrad") - a subsidiary (cont'd)
2. In 2001 a contract was signed between Telrad and Ectel (a public company and ECI's subsidiary), whereby Telrad sold

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all its holdings (100%) in Net-Eye Ltd. to Ectel, which issued shares and options to Telrad in consideration of the acquisition.

The transaction was treated in Koor's financial statements in accordance with the accounting principles for an exchange of similar assets, and accordingly, no profit or loss was recorded from the transaction.

In March 2003, Telrad sold about one-half of the shares in Ectel. Therefore, the financial statements include a gain of approximately NIS 15 million.

3. In May 2002, Telrad signed a share exchange and merger plan agreement with Connegy Inc., whereby a wholly-owned Telrad subsidiary merged with Connegy Inc. After the merger, Telrad holds 52% of the share capital of Telrad Connegy Communications Inc. (formerly Connegy Inc.).

The transaction was treated in the financial statements in accordance with the accounting principles for an exchange of similar assets, and therefore, no loss or gain was recorded from the transaction.

4. In 2002, Telrad's board of directors approved a reorganization plan that includes additional employee layoffs beyond the early retirement plans of 2000 and 2001. The financial statements for 2002 included in the item "other income (expenses), net" an expense of NIS 107 million (cost of reorganization plan in 2001 totaled NIS 90 million and in 2000 totaled NIS 273 million).

5. Beginning from 2002, Telrad does not comply with some of the financial ratios defined in an agreement with the banks. During 2002, Telrad reached agreement in principle with the banks, not yet put down in writing, whereby the debt balance was rescheduled, short-term credit were converted into long-term loans and loans were repaid. The balance of Telrad's debt was stated in the financial statements as at December 31, 2002 in accordance with the agreement with banks, as above. Telrad intends to repay the balance of the debt during 2004. Therefore, this debt was classified as current liabilities in the financial statements as at December 31, 2003.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- 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. (hereinafter - "the Companies"). The fire

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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 costs or restoration of the building, are estimated at approximately 35 million dollars, where as of the balance sheet date, advances had been received from the insurance company of approximately 10 million dollars. Elisra classifies the minimum receipts that Elisra's management estimates it will receive from the insurance companies as long-term receivables. On July 10, 2003, Elisra and its subsidiaries lodged a 96 million dollar claim in Tel Aviv District Court against the insurer and its representatives, based on the market value of the damaged assets, their repair or replacement.

In the estimation of the subsidiaries, based on factors including opinions from their legal counsel, 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 debt recorded in the financial statements.

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 agreement, Koor recorded in 2002 a capital gain of approximately 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 18.A(2).

As part of the agreement between Koor and Elta, a cooperation 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.

3. In the fourth quarter of 2003, Elisra's management decided to accept the tender offer made by a group of investors to all of the shareholders, to purchase the shares of BVR Systems (1998) Ltd., a subsidiary, and realized its holdings in the shares of BVR for total proceeds of approximately 1 million dollars. As a result of the transaction, a capital gain of approximately 2.8 million dollars was recorded in the fourth quarter of 2003.

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- E. Elisra Electronic Systems Ltd. ("Elisra") - a subsidiary (cont'd)
4. To secure guarantees issued by the banks, and a credit line (which as of the balance sheet date was drawn down only for the short-term), Elisra undertook to maintain financial criteria related to shareholders' equity, the ratio of equity to assets, current ratio and profitability. Elisra also agreed to terms that restrict the furnishing of guarantees to third parties by creating new liens, and to restrict the sale and transfer of assets.

During the year, Elisra did not comply with certain financial criteria.

In the estimation of Elisra's management, based on negotiations underway with the banks, Elisra will comply with the new financial criteria prescribed with the banks by the end of the first quarter of 2004.

- F. Koor Corporate Venture Capital ("Koor CVC") - a consolidated partnership
1. Regarding commitments to invest and other investments as at the balance sheet date, see Note 18.B(5).
2. During the report period, 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 72 million (in 2002 and 2001 - NIS 93 million and NIS 189 million, respectively).
3. In July 2003, a sales agreement signed upon in January 2003 between Koor CVC and a secondary venture capital fund (the "Acquiring fund"), regarding the assignment of its investments in venture capital funds (hereinafter - "the Sold Funds"), was closed. The agreement stipulated that, henceforth, the balance of Koor CVC's commitment in the Sold Funds would be transferred to the Acquiring fund.

Under the terms of the agreement, future sums to be distributed from the Sold Funds will be transferred to the Acquiring fund, up to the amount of its investment in the funds. Any excess will be distributed between Koor CVC and the Acquiring fund, according to the distribution ratio provided in the agreement.

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In view of the aforesaid, the 2002 financial statements included a provision for decline in value of the Sold funds.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- G. Knafayim Holdings Arkia ("Knafayim") - affiliate
1. During 2003, 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"). If all the options are exercised, the holding percentage might go up to 51.9% of the shares in El Al.

In January 2004, Knafayim approached the State with a request to obtain its consent and approval to increase its holdings in the shares in El Al above 5%. In addition, Knafayim filed notice of a merger related to its holdings in El Al with the Commissioner of Restrictive Trade Practices for his approval.

2. In March 2004, the Knafayim's Board of Directors of resolved to exercise some of the options, might raise Knafayim's shareholding percentage in El Al to 22.7%, subject to the approvals discussed previously.

In March 2004, Knafayim issued, through a private placement, debentures and options totaling NIS 135 million. Part of the proceeds will be earmarked to finance the exercise of the above mentioned options.

As of December 31, 2003, Koor holds 28.3% of the shares in Knafayim. Assuming the full exercise of the convertible securities, Koor will hold 25.25% of the shares in Knafayim.

Note 4 - Short-Term Deposits and Investments

Consolidated		Compan
December 31		Decembe
2003	2002	2003
NIS thousands		NIS tho

Marketable securities (1):

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Debentures	141,221	146,330	132,218
Short-term Treasury notes	74,628	161,808	74,628
Shares and options	56,010	52,286	48,753
Mutual fund participation certificates	5,618	4,587	-
	-----	-----	-----
	277,477	365,011	255,599
Deposits in banks and financial institutions	89,161	442,927	55,207
Short-term loans and current maturities of long-term loans	171	230,545	-
	-----	-----	-----
	366,809	1,038,483	310,806
	=====	=====	=====

(1) Presented at market value.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 5 - Trade Receivables

Consolidated:

	December 31	
	2003	2002
	NIS thousands	
	-----	-----
Open accounts	1,732,827	1,511,546
Deferred promissory note and receivables from sale of customers' debts*	250,492	376,167
Post dated checks receivable and credit card companies	43,561	50,589
Current maturities of long-term trade receivables	25,581	48,575
	-----	-----
	2,052,461	1,986,877
	=====	=====
Including:		
Net of allowance for doubtful accounts	106,305	94,503
	=====	=====

* According to the accounting principles relating to sale of customer debts (Note 2R), the balance of the customer debts, which were sold in the securitization transaction, and whose associated control and risks have been completely transferred to the

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purchaser, was impaired. For the share in customer debt included in the securitization transaction, and which were not recognized as a sale, a deferred promissory note was recorded (December 31, 2003 - NIS 292,342 thousand, December 31, 2002 - NIS 350,732 thousand), see Note 3C(1).

Note 6 - Other Receivables

	Consolidated		Company	
	December 31		December 31	
	2003	2002	2003	2002
	NIS thousands		NIS thousands	
Government agencies	126,043	131,890	7	71
Deferred taxes, see Note 16F	156,030	75,865	58,903	
Accrued income	31,289	39,758	717	2,35
Prepaid expenses	45,712	44,701	-	
Employees	8,855	9,930	-	
Affiliates - current accounts	2,867	3,141	489	
Others	81,374	147,615	7,658	46,09
	452,170	452,900	67,774	49,15
	=====	=====	=====	=====

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Koor Industries Ltd. (an Israeli Corp)

Notes to the Financial Statements

Note 7 - Inventories and Work in Progress

Consolidated:

	December 31
	2003
	NIS thousands

A. Inventories and work in progress, net of customer advances

Presented as current assets:

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Industrial inventory:		
Raw and auxiliary materials	570,455	584
Goods and work in progress	199,748	256
Finished goods	1,024,181	1,061
Advances in respect of materials	4,562	3
Inventories for trading operations - merchandise, including advance payments	91,591	72
	-----	-----
	1,890,537	1,979
Less - customer advances	4,786	8
	-----	-----
	1,885,751	1,971
	=====	=====

B. Customer advances, net of work in progress

		December 31

	2003	-----

		NIS thousands

Presented as current liabilities:		
Customer advances in respect of work in progress (1) (2)	156,831	230
Less - inventory and work in progress	390	
	-----	-----
	156,441	229
	=====	=====

(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).

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Koor Industries Ltd. (an Israeli Corp)

Notes to the Financial Statements

Note 8 - Investments in Investee companies

December 31

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	2003	
	-----	-----
	NIS thousands	
	-----	-----
A. Consolidated balance sheet - affiliates		
Net asset value of the investments (1) (2)	902,343	9
	-----	-----
Goodwill and original difference (2):		
Original amount	66,465	6
Accumulated amortization	(51,395)	(4)
	-----	-----
	15,070	2
	-----	-----
Long-term loans (3)	26,351	2
	-----	-----
	943,764	1,04
	=====	=====
(1) As follows:		
Net asset value of investments as at December 31, 1991	277,159	27
Changes from January 1, 1992:		
Cost of shares acquired or received	1,266,706	1,25
Accumulated losses, net	(708,007)	(59)
Changes in capital reserves and		
Foreign currency translation adjustments	(11,648)	(2)
Initially consolidated subsidiaries, net	465,193	46
Disposals, net	(387,060)	(38)
	-----	-----
	902,377	99
	=====	=====
(2) Including investments in companies traded on the Stock		
Exchange in Tel Aviv or abroad, in NIS millions:		
Carrying value	862	
	=====	=====
Market value as at balance date	985	
	=====	=====
(3) Linkage terms and interest rates relating to long-term loans:		
Linked to the CPI - bearing interest at the rate of 5.5%	20,470	1
Linked to the Dollar - bearing interest at the rate of		
LIBOR * + 1%.	5,881	
	-----	-----
	26,351	2
	=====	=====

* On December 31, 2003, the LIBOR rate is 1.47%).

Notes to the Financial Statements

Note 8 - Investment in Investee Companies (cont'd)

B. Company balance sheet - investees

	December 31	
	2003	1991
	NIS thousands	
	-----	-----
Shares:		
Net asset value of the investments	1,940,588	2,086,606
Goodwill and original differences:	158,187	158,187
Original amount, net		
Accumulated amortization	(90,179)	(7,000)
	-----	-----
	68,008	7,000
	-----	-----
Book value (1)	2,008,596	2,161,606
Payments on account of shares (1)	60,927	60,927
Long-term loans and capital notes (2)	1,379,561	1,411,111
Non-current inter-company accounts (3)	3,982	3,982
	-----	-----
	3,453,066	3,648,626
	=====	=====
(1) As follows:		
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	7,055,603	7,055,603
Accumulated losses, net	(4,432,466)	(4,432,466)
Changes in capital reserves and erosion of capital notes, net	14,648	14,648
Disposals	(2,600,943)	(2,600,943)
	-----	-----
Book value, including payments on account of shares (4)	2,069,523	2,222,031
	=====	=====

Notes to the Financial Statements

Note 8 - Investment in Investee Companies (cont'd)

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

		December 31	
		2003	2002
		NIS thousands	
		-----	-----
(2)	Long-term loans and capital notes:		
	Long-term loans (a)	65,633	12,184
	Capital notes - unlinked and not bearing interest (b)	1,316,457	1,379,561
		-----	-----
	Less - current maturities of long-term loans	1,382,090	1,498,800
		2,529	800
		-----	-----
		1,379,561	1,418,800
		=====	=====

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

	Interest rate at December 31	December 31	
		2002	2003
	-----	-----	-----
	%	NIS thousands	
	-----	-----	-----
Linked to the Dollar	2.8 - 3.1	12,184	7,000
Linked to the CPI	2.0-2.8	43,205	4,000
Linked to the CPI	No interest	10,244	4,000
		-----	-----
		65,633	12,184
		=====	=====

(b) Capital notes are not presented at their present value,

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since their repayment date has not yet been fixed by the parties.

(3) Non-current inter-company accounts:

	December 31

	2003

	NIS thousands

Linked to the Dollar	569
Unlinked-bears interest at the rate of the increase in the CPI	3,413

	3,982
	=====

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Koor Industries Ltd. (an Israeli Corp)

Notes to the Financial Statements

Note 8 - Investment in Investee Companies (cont'd)

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

	December 31

	2003

	NIS thousands

(4) Including investments in marketable shares traded on theTel Aviv Stock Exchange or abroad in NIS millions:	
Carrying value	498
	=====
Market value as at balance date	867
	=====

Note 9 - Other Investments and Receivables

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A. Composition:

	Consolidated		Company	
	December 31		December 31	
	2003	2002	2003	
	NIS thousands		NIS thousands	
Deposits in banks and in financial institutions	49,180	76,289	32,028	
Non-current trade receivables	9,362	25,974	-	
Long-term loans receivable from others	73,498	50,512	-	
	132,040	152,775	32,028	5
Marketable securities	1,625	1,484	-	
Venture capital investment	230,390	284,283	-	
Indemnification receivable for fire Damages (1)	113,346	108,064	-	
Non-marketable shares and payments on account	1,036	1,713	1,036	
Others	4,947	23,220	113	
	483,384	571,539	33,177	5

(1) See Note 3E(1)

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Koor Industries Ltd. (an Israeli Corp)

Notes to the Financial Statements

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:

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	Average interest rates at December 31 2003	December 31	
	%	2003	
		----- NIS thousands -----	
Linked to the CPI	Mainly 5.7	39,028	
Linked to the foreign currency (mainly to the Dollar)	0 - 10	93,012	
Unlinked	-	-	
		-----	-----
		132,040	1
		=====	=====

Company:

		December 31	
		2003	
		----- NIS thousands -----	
Linked to the CPI	5.7	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		
	2003	2002	2003		
		----- NIS thousands -----		----- NIS thousands -----	
Amounts collectible in the:					
Second year	50,094	99,242	-		5
Third year	45,958	19,331	32,028		
Fourth year	8,230	8,597	-		
Fifth year	3,909	5,336	-		
Thereafter and without a specific maturity date	23,849	20,269	-		
		-----	-----	-----	-----
	132,040	152,775	32,028		5
		=====	=====	=====	=====

Notes to the Financial Statements

Note 10 - Fixed Assets

A. Consolidated

	Land (including leasehold land)	Buildings	Machinery, equipment and installations	Vehicles and forklifts	Office furniture and equipment	instru
NIS thousands						
Cost as at January 1, 2003	125,056	1,735,986	4,063,998	62,157	204,338	3
Additions during the year	754	21,378	152,977	5,888	18,392	
Disposals during the year	4,251	25,028	245,099	24,485	9,725	
Adjustments resulting from foreign currency translation differences*	(5,908)	(25,938)	(181,784)	(3,992)	(10,299)	
Formerly consolidated subsidiaries, net	-	(1,104)	(39,076)	(113)	(200)	
Balance as at December 31, 2003	115,651	1,705,294	3,751,016	39,455	202,506	3
Accumulated depreciation as at January 1, 2003	1,226	632,273	2,269,866	30,586	122,390	
Additions during the year	56	43,155	167,440	6,556	20,336	
Disposals during the year	-	10,649	236,533	13,357	8,018	
Adjustments resulting from foreign currency translation differences*	(49)	(12,192)	(92,862)	(2,722)	(4,052)	
Formerly consolidated subsidiaries, net	-	(469)	(35,112)	(34)	(38)	
Balance as at December 31, 2003	1,233	652,118	2,072,799	21,029	130,618	
Write down for decline in value	-	11,707	-	-	-	
Net book value as at December 31, 2003	114,418	1,041,469	1,678,217	18,426	71,888	3

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Net book value as at December 31, 2002	123,830	1,103,713	1,794,132	31,571	81,948	3
	=====	=====	=====	=====	=====	=====

* See Note 2B(3)

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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 2003 and thereafter. Certain leases provide an option for extension for another 49 years.

The cost of leasehold real estate as at December 31, 2003, is approximately NIS 755 million, of which approximately NIS 437 million is under a 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 181 million, adjusted, and NIS 195 million, adjusted, as at December 31, 2003 and 2002, respectively (see also Note 16A).
- (3) Includes capitalized interest amounting to about NIS 141 million adjusted, and about NIS 92 million adjusted to December 31, 2003 and 2002, respectively.
- (4) As for amounts charged to cost of fixed assets, see Notes 23B and E.
- (5) Including fully depreciated assets amounting to NIS 797 million, adjusted to December 31, 2003.
- (6) See Note 22 regarding liens.

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Notes to the Financial Statements

Note 10 - Fixed Assets (cont'd)

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	T
	NIS thousands	NIS thousands	NIS thous
Cost as at January 1, 2003	36,008	6,245	42,
Additions during the year	267	125	
Disposals during the year	-	1,000	1,
Balance as at December 31, 2003	36,275	5,370	41,
Accumulated depreciation as at January 1, 2003	3,423	2,722	6,
Additions during the year	829	515	1,
Disposals during the year	-	874	
Balance as at December 31, 2003	4,252	2,363	6,
Write down for decline in value	11,707	-	11,
Net book value as at December 31, 2003	20,316	3,007	23,
Net book value as at December 31, 2002	32,585	3,523	36,

(*) 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.

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These 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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 11 - Intangible Assets, Deferred Tax Assets and Deferred Expenses

A. Consolidated balance sheet

	December 31	
	2003	2002
	NIS thousands	
Intangible assets-goodwill:		
Original amounts	714,841	886,411
Accumulated amortization	298,430	354,411
	416,411	532,000
Licensing of products abroad:		
Original amounts	783,206	700,000
Accumulated amortization	413,741	348,000
	369,465	352,000
Intangible assets in the purchase of products:(1)		
Original amounts	1,231,476	1,321,476
Accumulated amortization	100,993	47,000
	1,130,483	1,273,476
Marketing rights and others:		
Original amounts	189,757	209,000
Accumulated amortization	52,654	53,000
	137,103	155,000
Deferred expenses:		
Debentures issuance costs:		
Original amount	10,799	13,000

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Accumulated amortization	3,715	2
	-----	-----
	7,084	10
	-----	-----
Deferred taxes receivable (see Note 16(F))	60,537	71
	-----	-----
	2,121,083	2,396
	=====	=====

(1) Including intellectual property rights, trade mark, technological know-how, etc.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 12 - Credit from Banks and Others

A. Composition:

	Consolidated		Company	
	December 31		December 31	
	2003	2002	2003	
	NIS thousands		NIS thousands	
	-----	-----	-----	-----
From banks	914,260	1,305,019	169,709	1
Current maturities of long-term loans and debentures	663,142	1,010,480	418,826	5
	-----	-----	-----	-----
	1,577,402	2,315,499	588,535	7
	=====	=====	=====	=====

See also Note 15A

B. Classification by linkage terms and interest rates:

	Average	Consolidated
	interest rates at	December 31

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	December 31 2003	2003	
	%		NIS thousands
Linked to foreign currency (mainly to the Dollar)	2.0-20.5 (mainly 1.8-7.0)	647,098	9
Unlinked	6.9-11.4 (mainly 10.6-11.4)	267,162	3
		914,260	1,3
		=====	=====

	Average interest rates at December 31 2003	Company December 31 2003	
	%		NIS thousands
Linked to the Dollar	2.4-3.2	169,704	17
Unlinked	8.7	5	1
		169,709	19
		=====	=====

C. See Note 22 regarding liens to secure credit.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 13 - Trade Payables

	Consolidated		Company
	December 31		December 31
	2003	2002	2003
	NIS thousands		NIS thousands
Open debts	1,337,442	1,159,151	484
Cheques and notes payable	5,341	24,032	19
	1,342,783	1,183,183	503

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Note 14 - Other Payables

	Consolidated		Company
	December 31		December 31
	2003	2002	2003
	NIS thousands		NIS thousands
Employees and withholdings remitted	162,035	135,552	291
Provision for vacation pay and vacation expense allowance	100,006	109,931	3,353
Expenses to be paid	233,656	276,032	21,341
Government agencies (including taxes)	192,770	141,236	2,143
Provision for warranty and repairs	52,844	33,739	-
Payables for purchase of assets	-	220,794	-
Severance pay payable and current portion of early retirement pensions (see Note 17)	87,438	147,631	134
Reserve for internal insurance	3,226	15,099	3,226
Dividend proposed to the minority	15,231	-	-
Deferred income	43,148	14,275	-
Liability in respect of securities that were sold short	67,515	71,096	-
Liabilities regarding forward transaction	57,061	37,922	9,457
Others	255,287	191,148	3,321
	1,270,217	1,394,455	43,266
Includes interested parties			1,544

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 15 - Long Term Liabilities

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A. Loans

	Consolidated		Company	
	December 31		December 31	
	2003	2002	2003	2002
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
1. Loans from banks	3,668,341	4,808,310	1,875,279	2,533,411
Less - current maturities	661,998	970,941	320,200	461,541
	3,006,343	3,837,369	1,555,079	2,071,869
2. Loans from others:				
Shareholders in subsidiaries and in proportionately consolidated companies	52,386	38,461	-	-
Investees	-	-	154,315	92,031
Receipts from time-sharing units	33,765	34,617	-	-
Deferred income	9,945	4,159	-	-
Others and long-term accrued expenses	18,542	28,553	-	-
	114,638	105,790	154,315	92,031
Less - current maturities	1,144	1,085	98,626	92,031
	113,494	104,705	55,689	-
	3,119,837	3,942,074	1,610,768	2,071,869

3. Classification by linkage terms and interest rates:

The consolidated balance sheet:

	Interest rate at December 31 2003	December 31	
		2003	
	%	NIS thousands	
Linked to the foreign currency (mainly Dollar)	1.7-8.1	2,147,952	2,800,000
Linked to the CPI	3.7-6.9	1,581,728	2,000,000
Linked to the CPI	No interest	46,227	-
Unlinked	6.6-7.9	7,072	-

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	-----	-----
	3,782,979	4,9
Less - current maturities	663,142	9
	-----	-----
	3,119,837	3,9
	=====	=====

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Koor Industries Ltd. (An Israeli Corporati

Notes to the Financial Statements

Note 15 - Long Term Liabilities (cont'd)

A. Loans (cont'd)

The Company balance sheet:

	Interest rate at December 31 2003 ----- %	December 31 ----- 2003 ----- NIS thousands	
a. From banks			
Linked to the CPI	5.8-6.9	1,502,011	1,915
Linked to the Dollar	2.7-7.7	373,268	617
		-----	-----
		1,875,279	2,533
Less - current maturities		320,200	461
		-----	-----
		1,555,079	2,071
		=====	=====
b. From investees:			
Capital note	-	8,125	
Linked to the CPI	3.3-4	98,626	9
Linked to the CPI	-	47,564	
		-----	-----
		154,315	9
Less - current maturities		98,626	9

 55,689
 =====

B. Debentures

	Consolidated		Company	
	December 31		December 31	
	2003	2002	2003	
	NIS thousands		NIS thousands	
Debentures convertible into Shares at Series F issued By Koor (1):	-	38,454	-	3
Debentures convertible into shares of subsidiary(2):	340,270	397,504	-	
	340,270	435,958	-	3
Less - current maturities	-	38,454	-	3
	340,270	397,504	-	

(1) In the current period, debentures of a par value of NIS 23,435 thousand (Series F) were repaid.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 15 - Long Term Liabilities (cont'd)

B. Debentures (cont'd)

(2) a. In November 2001 M-A Industries issued, under a prospectus, convertible debentures and options for a net consideration of approximately NIS 276 million.

M-A Industries recorded the options at their fair value in accordance with the Black & Scholes option pricing model (about NIS 19 million). The balance of the proceeds (approximately NIS 257 million) was allocated to the fair

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value of the convertible debentures.

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 10.36 (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. 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 approximately NIS 16,684 thousand par value of debentures (Series A) in consideration of approximately 3.2 million dollars.

During June 2003, all of the above debentures were sold for 4.3 million dollars.

- d. In the current year, NIS 57,660,575 par value of debentures (Series A) were converted into 5,565,649 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. Subsequent to the balance sheet date and proximate to the approval date of the financial statements, NIS 29,188 thousand par value of debentures (Series A) was converted into 2,833 thousand ordinary shares, NIS 1 par value.

The debentures are secured by a symbolic fixed senior lien on a deposit of NIS1 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.

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Koor Industries Ltd. (An Israeli Corporati

Notes to the Financial Statements

Note 15 - Long Term Liabilities (cont'd)

C. Liabilities (net of current maturities) that will mature in the

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following years subsequent to balance sheet date are as follows:

1. Consolidated

	Loans from banks		Loans from others		Debentures	
	December 31		December 31		December 31	
	2003	2002	2003	2002	2003	2002

	NIS thousands					

Second year	626,983	899,477	7,929	24,614	-	-
Third year	1,649,252	380,990	13,622	6,880	-	-
Fourth year	308,944	1,995,683	5,150	4,887	340,270	-
Fifth year	224,854	269,571	4,832	4,321	-	397,000
Sixth year	43,029	88,993	1,000	4,219	-	-
Subsequent years	153,281	202,655	80,961	59,784	-	-
	-----	-----	-----	-----	-----	-----
	3,006,343	3,837,369	113,494	104,705	340,270	397,000
	=====	=====	=====	=====	=====	=====

2. The Company

	Loans from banks		Loans and capital note from investees		D
	December 31		December 31		
	2003	2002	2003	2002	

	NIS thousands				

Second year	314,174	355,895	47,564	-	361,738
Third year	1,232,086	-	-	-	1,232,086
Fourth year	-	1,706,613	-	-	-
Fifth year	-	-	-	-	-
Sixth year	-	-	-	-	-
Subsequent years	8,819	9,360	8,125	-	16,944
	-----	-----	-----	-----	-----
	1,555,079	2,071,868	55,689	-	1,610,768
	=====	=====	=====	=====	=====

D. See Note 22 for details of security pledged to secure loans.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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 adjusted incomes according to the financial statements adjusted income for tax purposes.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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 item A. above, is liable to tax at the regular rate of 36% (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, 2003 carryforwards to next years amounted to approximately NIS 3,181 million as at balance sheet date, out of which NIS 1,607 million relates to Koor. Carryforward tax losses are linked to the CPI.
2. The Company has received final assessments until 1998 tax year.
3. MA Industries subsidiaries in Israel received, for 1999, tax assessments to the best of judgment, according to which they have been required to pay an additional 2.2 million dollars. These consolidated companies appealed against the demand. After the balance sheet date, tax assessments to the best of judgment were also received for the years 2000 and 2001. The total demand for payment for these years is 7.8 million dollars. The consolidated companies believe that the provisions made in the financial statements suffice.

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Koor Industries Ltd. (An Israeli Co

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Notes to the Financial Statements

Note 16 - Taxes on Income (cont'd)

F. Deferred taxes:

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

	December
	2003
	NIS thou
Within current assets in respect of:	
Provision for vacation pay and severance benefits	28,185
Operating loss and capital loss carried forwards	92,327
Inventory, net of customer advances	3,757
Timing differences in respect of recognition of income and expenses	31,761
Total in current assets	156,030
Within long-term assets in respect of:	
Depreciation	(33,256)
Operating loss and capital loss carried forwards	908,425
Liability in respect of employee severance benefits	28,680
Other	3,709
Balance not expected to be realized (1)	(847,021)
Total in other long-term assets	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	(5,054)
Total in other payables	(4,983)
Within long-term liabilities in respect of:	
Depreciation	(364,906)
Operating loss and capital loss carried forwards	135,387
Liability in respect of employee severance benefits	41,842
Other	(2,615)
Balance not expected to be realized (1)	(190,292)
Total in long-term liabilities	(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

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and, accordingly, no deferred taxes were created in respect thereof.

(2) The Company's balance - see Note 3C(10).

* Reclassified

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Koor Industries

Notes to the Financial Statements

Note 16 - Taxes on Income (cont'd)

F. 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
	-----	-----	-----	-----
	NIS thousands			
	-----	-----	-----	-----
Balance as at January 1, 2002	(354,863)	(4,309)	100,402	249,147
Translation differences in subsidiaries	(2,351)	(48)	439	140
Amounts charged to statement of operations	(37,645)	(2,077)	40,001	(71,191)
Other changes, net*	(5,862)	(471)	-	787
	-----	-----	-----	-----
Balance as at December 31, 2002	(400,721)	(6,905)	140,842	178,883
Translation differences in subsidiaries	21,304	1,386	(7,627)	(9,026)
Amounts charged to statement of operations	(18,745)	9,276	(34,437)	109,766
	-----	-----	-----	-----

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Balance as at December 31, 2003	(398,162)	3,757	98,778	279,623
	=====	=====	=====	=====

* Mainly subsidiaries that were sold/acquired, net.

Deferred taxes were computed at tax rates of 25% - 36%.

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Koor Industries Ltd. (An Israeli Co

Notes to the Financial Statements

Note 16 - Taxes on Income (cont'd)

G. Taxes on income included in consolidated statements of operations:

1. Composition:

	Year ended December 31		
	2003	2002	2001
	NIS thousands		
	-----	-----	-----
Earnings (losses) before income tax:			
In Israel	41,868	(451,190)	(697,200)
Abroad	406,496	137,540	60,000
	-----	-----	-----
	448,364	(313,650)	(696,600)
	=====	=====	=====
For the current year:			
Current taxes:			
In Israel	51,470	67,444	66,700
Abroad	60,440	17,392	11,200
Deferred taxes:			
In Israel	(66,565)	18,942	(3,200)
Abroad	21,359	45,537	(33,900)
In respect of previous years:			
In Israel	(9,189)	(8,369)	(6,100)
Abroad	27,857	233	4,200
	-----	-----	-----
	85,372	141,179	38,000

Notes to the Financial Statements

Note 16 - Taxes on Income (cont'd)

- G. Taxes on income included in the consolidated statements of operations (cont'd):
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 36%, and the tax amount charged in the statement of income.

	Year ended Dec	
	2003	2002
	NIS thousands	
Earnings (losses) before taxes on income, as reported in the statement of operations	448,364	(313,650)
Statutory tax rate	36%	36%
Theoretical tax expenses in respect of these earnings (losses)	161,411	(112,914)
Increase (decrease) in taxes resulting from the following factors - the tax effect:		
Tax benefits under various encouragement laws	(32,790)	(58,461)
Non-deductible expenses for tax purposes	22,650	144,711
Losses for which deferred taxes were not recorded	40,470	194,757
Capital gains (losses) from sale of investments and assets, net	-	(91)
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	-	(60,132)
Tax losses from prior years, for which deferred taxes were recorded this year	(58,903)	-
Effect of the Inflationary Adjustments Law		

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in respect of companies whose functional currency is the Dollar	(25,660)	24,032
Taxes in respect of prior years	18,668	(8,136)
Effect of foreign subsidiaries *	(63,328)	(28,862)
Others	(2,894)	2,576
	-----	-----
Total taxes on income	85,372	141,179
	=====	=====

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

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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. Were 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 asked, 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. Therefore, 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. In Management's opinion, an appropriate provision, based on the salary components used in the computation of severance pay, has been included in the financial statements to fully cover this liability.

Regarding companies in which enhanced severance has been planned or

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agreed upon for the employees, appropriate provisions have been made for the supplementary amounts.

In early 2003, the Knesset passed a law, which changed the regulations for pension funds, and retirement age will be raised gradually from 65 to 67 for men and from 60 to 62 for women. On the other hand, the Minister of Finance deposited a letter with the Chairman of the Knesset Finance Committee, whereby an annual fund will be set up, to compensate those harmed by the application of the law, including employers. The Company's and investee's company managements assess that the above law will not have a material effect on the Group's obligations for early retirement in respect of its employees.

B. 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).

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Koor Industries Ltd. (An Israeli Co

Notes to the Financial Statements

Note 17 - Liabilities for Employee Severance Benefits, Net (cont'd)

C. 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.

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

Consolidated		Company
December 31		December 31
2003	2002	2003
NIS thousands		NIS thousands

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Severance pay and retirement grants	259,455	315,600	3,227
Amount accrued for early retirement	186,059	154,172	548
Amount accrued in respect of unutilized sick leave	11,853	11,188	314
	-----	-----	-----
	457,367	480,960	4,089
Less - amount funded (1)	265,365	224,656	2,605
	-----	-----	-----
	192,002	256,304	1,484
	=====	=====	=====

(1) The amounts funded can be withdrawn, subject to the fulfillment of the provisions of the Severance Pay Law.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 18 - Contingent Liabilities and Commitments

A. Contingent liabilities

1. Commissioner of Restrictive Trade Practices:

During October 1997, proximate to the date of the publication of a newspaper article containing details about alleged violations of the Law for Restrictive Trade Practices, 1988 (hereinafter - "the Law"), regarding alleged price-fixing and lack of competition between Tadiran Ltd. (subsidiary of Koor - "Tadiran") and Tadiran Telecommunications Ltd. (formerly a Koor subsidiary) (hereinafter - "TTL") and between Telrad Networks Ltd. (subsidiary of Koor - "Telrad"), the Commissioner of Restrictive Trade Practices (hereinafter - "the Commissioner") conducted an investigation at the offices of Tadiran, TTL, Telrad and the Company, during which certain documents were gathered, certain employees were questioned and additional information was submitted as requested.

On December 13, 1998, the Commissioner issued a press release, in which he announced that the Investigations Department of the Restrictive Trade Practices Authority (hereinafter - "the Authority") had concluded the

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investigation regarding suspicions about restrictive arrangements between the Company, Tadiran, TTL, Telrad, Bezeq and BezeqCall, in the supply of switchboards for the commercial market and in the Network Termination Point segment.

On March 4, 2002, Tadiran and Telrad received notice from the Authority that it is considering the possibility of bringing each of them to trial for violations of the Law, in the matter of the actions the Authority alleges that each of them took, relating to the supply of switchboards for the commercial market in the years 1993 to 1997. The Authority's notice states that the allegations against Telrad and Tadiran in the Network Termination Point segment are still being reviewed by the Commissioner.

Under the Law, penalties may be imposed against an entity that has violated the Law. There is also the possibility of repercussions at the civil level, if damage should be proven as a result of a violation of the law.

Contacts are underway with the Restrictive Trade Practices Authority, in an effort to conclude the proceedings related to the Authority's investigation.

The Company is unable to estimate, at this stage, the significance and implications of the Authority's notice, and accordingly, no provision has been made in the financial statements in respect of this matter. See Note 18A5(a) for information on Tadiran's indemnification of ECI.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- A. Contingent liabilities (cont'd)
- 2. Elisra

As part of the agreement for the sale of part of the Company's holdings in Elisra to Elta, as described in Note 3E(3), Koor undertook to indemnify Elta for damages, as defined in the agreement, which will incur as a result of violation of representations made to Elta in the agreement. The main points of the indemnification undertaking are these:

- (a) Damages exceeding 2 million dollars, incurred as a result of the violation of most of the representations, as well as any damages sustained as a result of violation of the representation concerning the fairness of the provisions in the

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financial statements of Elisra for the year 2001 in respect of obligations to employees; provided that the demand for payment of the indemnity is submitted by Elta not later than 30 days after the date of presentation of Elisra's financial statements for 2003.

- (b) Any amount of damages incurred as a result of violation 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.
- (c) Any amount of damages incurred as a result of tax payments for which Elisra will be liable, in respect of the tax year 2001, and that are at least 4 million dollars higher than all the provisions for taxes included in Elisra's financial statements for 2001; provided that the demand for payment of indemnity is submitted by Elisra not later than 30 days after the date on which the self-assessment in respect of that tax year becomes final.
- (d) As a condition for the continued availability - see Note 3E(4).

- 3. According to the terms of agreements with banks, Koor undertook, among other things, to maintain minimum shareholders equity, and to partially repay the current debt out of proceeds to be received from the divestitures of specific assets, in the event that the assets are sold. As at balance sheet date, Koor is complying with these conditions.

4. Telrad

- A. In October 1994, a claim in an unspecified amount was filed by the Engineers Union against Telrad. The claim pertains to the recognition of applicability to Telrad engineers of the salary tables included in the general collective bargaining agreements, which were signed in 1995 and 1994 between the Engineers Union and employers in the public service sector.

On January 31, 1996, a ruling was handed down by the Tel Aviv District Labor Court, which dismissed outright the claims of the Engineers Union. The Engineers Union appealed the ruling to the Labor Court, which ruled that the agreement is a collective agreement governing the relations between Telrad, the Union and the Telrad employees. An appeal was filed in the Supreme Court by Telrad.

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Notes to the Financial Statements

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

A. Contingent liabilities (cont'd)

4. Telrad (cont'd)

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 similar claim was filed by the Lod Workers' Council and the Workers' Committee concerning the applicability of the salary tables of the public service sector to 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.

- C. As a condition for the continued availability of bank credit lines given to Telrad see Note 3D(5).

5. Tadiran and its investees

- A. In the 1999 merger agreement between ECI and Tadiran Telecommunications Ltd., Tadiran undertook to indemnify ECI for any loss ECI sustains as a result of matters under investigation by the Restraint of Trade authority.

This indemnity 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.

- B. Employees of a Tadiran plant that closed during 1990 filed actions against the Tadiran, alleging that they sustained injuries or certain work-related illnesses that they allege resulted from exposure to certain substances during their employment. Tadiran has insurance policies which, relying on

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legal opinion, cover possible damages resulting from these claims, and consequently, no provisions have been made in respect of those claims. Tadiran recorded provisions in respect of possible damages which had been covered by an insurance company currently in liquidation.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- A. Contingent liabilities (cont'd)
- 5. Tadiran and its investees (cont'd)
- C. In October 1999, Bezeq, The Israel Telecommunication Corp. Ltd. (hereinafter - "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 (hereinafter - "main claim"). Alternatively, Bezeq is suing for the balance of arrearage penalties to which it alleges it is entitled pursuant to those contracts, and which were not paid in full, in the amount of approximately 1.7 million dollars (hereinafter - "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 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 the matter has been 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. In the estimation of Tadiran's management, based on the opinion of its legal counsel, Tadiran will not bear additional material expenses, beyond the provision included in the financial statements.

- 6. M-A Industries and its overseas investees

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a. Quality of the environment

The activities of M-A Industries are exposed to the risk 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 crisis 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, the company believes that the terms of the insurance, including the sum insured, do not at present justify taking out such insurance.

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 geological layers in that particular area are completely impermeable to seepage or pollution. The Ministry of the Environment 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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- A. Contingent liabilities (cont'd)
6. M-A Industries and its overseas investees (cont'd)

In 1998 an agreement was signed between the Ramat Hovav Council, the plants and university institutions, to finance research that would provide a basis for recommendations as to the action to be taken to halt any further pollution. In 2003, the research was concluded and its results were submitted to M-A Industries. As at the date of the financial statements, M-A Industries management does not expect significant impact with respect to M-A Industries from implementation of the report's

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recommendations, and, therefore, no provision has been included in the financial statements in respect thereto.

Against M-A Industries and one of its officers, a criminal complaint was filed 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 did not include a provision in respect thereof.

- b. A claim was filed against a subsidiary in Brazil, alleging that the subsidiary copied a certain process, which is a protected trade secret owned by the claimant. Accordingly, the subsidiary is being sued to indemnify the claimant for unfair competition, in the amount of approximately 9 million dollars (based on a calculation involving the amount of materials used). In addition, the claimant requested that a fine of 25 dollars per day be levied against the subsidiary for the unlawful exploitation of trade secrets. Based on the opinion of its legal counsel, the subsidiary's management estimates that the claim has no validity and therefore, no provision has been included in the financial statements in respect thereto.
- c. In addition a claim was filed against a subsidiary in Brazil and others, totaling approximately 31 million dollars, by a group that acquired the rights of two banks, which had declared bankruptcy, as the guarantor of debts of agricultural cooperatives that were its former shareholders. Based on the opinion of its legal counsel, the subsidiary's management estimates that there is a good chance that its defense against the claim will be accepted and, therefore, no provision has been included in the financial statements in respect thereto.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- A. Contingent liabilities (cont'd)
6. M-A Industries and its overseas investees (cont'd)
- d. Administrative proceedings, civil actions and other monetary claims of approximately 18 million dollars 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 from these claims.
- e. On the matter of compliance with financial criteria, see Note 3C(1).
- f. On the matter of undertakings in securitization transactions, see Note 3C(1).
7. On September 30, 1999, Knafayim, an affiliate, and the Ze'evi Group jointly signed an agreement with the government of Bulgaria and the Bulgarian Privatization Authority, to acquire 75% of the share of Balkan-Bulgarian Airlines, as part of the privatization process of the Bulgarian government (hereinafter - "privatization agreement"). On October 17, 1999, an agreement was signed between Knafayim and the Ze'evi Group, pursuant to which Knafayim transferred to the Ze'evi Group all of its rights and obligations pursuant to the privatization agreement (hereinafter - "the agreement"), and the Ze'evi Group undertook to obtain the consent of the Bulgarian government and the Bulgarian Privatization Authority to release Knafayim from its obligations toward them pursuant to the privatization agreement. The Ze'evi Group also undertook, pursuant to the agreement, that as long as the above consent is not obtained, the Ze'evi Group would discharge, at its expense, any claim lodged against Knafayim resulting from the privatization agreement, and would indemnify Knafayim for any direct damage it sustains as a result of the privatization agreement. The Bulgarian government and the Bulgarian Privatization Authority have not as yet given their consent to release Knafayim from its obligations toward it pursuant to the privatization agreement.

The government of Bulgarian has financial claims against Knafayim and the Ze'evi Group in respect of alleged breach of the privatization agreement. As of February 10, 2004, when the last letter of demand was received from the Bulgarian government, the total financial demands by the Bulgarian government from Knafayim and the Ze'evi Group in respect of the years 2000-2002 reach 20.6 million dollars. Knafayim sent a letter of response to the Bulgarian government on March 11, 2004, in which it denies outright its liability for the alleged damages, and gave its consent to the appointment of an arbitrator, agreed by Knafayim and the Ze'evi Group, without any admission of the allegations whatsoever. In the estimation of Knafayim's management,

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Knafayim and the Ze'evi Group have worthy defense arguments against the demands by the Bulgarian government, based on factors including the opinion of the Ze'evi Group's Bulgarian attorneys.

Likewise, the Ze'evi Group filed a claim against the Bulgarian government, which now stands at 70 million dollars, which was heard as part of the international arbitration being held in Paris.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- A. Contingent liabilities (cont'd)
- 8.
 - a. The financial statements of Herods, a company proportionately consolidated by Sheraton Moriah Ltd. (hereinafter: "Sheraton"), a consolidated company of Koor, were approved and signed by Sheraton's representatives on Herods Board of Directors (representing 50% of all Herods directors), but were not approved by the representatives of the other shareholders (also representing 50% of all Herods directors). Therefore Herods financial statements are not seen as approved by law. The representatives of the other Herods shareholders refuse to sign the financial statements given the dispute between the parties, detailed in Note 18A8(b). Sheraton's management, and its Herods Board representatives estimate that the maximum financial exposure to Herods, or to Sheraton, for Herods, could be, if any, in relation to claims or demands on the part of the other shareholders, or their representatives in Herods board, is immaterial.
 - b. The other Herods shareholders (hereinafter: "the plaintiffs") filed, with the Tel Aviv District Court, a "Request for the approval of a claim as a derivative action" against Sheraton and a consolidated company. The derivative action, for which they are seeking approval, is for the cancellation of the management agreement between Herods and a consolidated company, and this 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 agreement. At this initial stage, (whereby the claim has not yet been approved to be filed as a derivative action), the Sheraton's legal counsels are unable to assess the chances of the claim.
- 9. In addition, a number of claims have been filed against certain investees concerning various matters arising in the

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normal course of business, including litigation with tax, customs and VAT authorities, which are in various legal proceedings. The managements of these companies believe, based on the opinions of their legal counsel that adequate provisions for those claims have been made in their financial statements, in light of the circumstances.

10. On fulfillment of conditions relating to an investment grant - see Note 10A(2).
11. The business activities of the Koor Group are based primarily on high-technology. The accelerated pace of technological development and innovation in the fields in which the Group operates requires the investment of substantial financial resources in research and development, in order to assure the Group's position in its operating segments and in its constant competition with both Israeli and global entities. Consequently, the Group may be exposed to the loss of its position in certain segments, as well as to substantial research and development costs, which, in turn, may have an adverse effect on the Group's operating results.
12. On the indemnity granted to Claridge as advisor - see Note 25C(2).
13. In connection with the indemnification of the appraiser who conducted an evaluation for ECI, see Note 3A(1).

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- B. Commitments
 1. Some 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 linked amounts of the grants received by the companies as participation in the research and development projects.

Royalties paid to the Government of Israel in respect of the aforementioned research and development contracts, are as follows:

In the year ended December 31, 2003 - NIS 22,902 thousand.
In the year ended December 31, 2002 - NIS 24,662 thousand.
In the year ended December 31, 2001 - NIS 27,024 thousand.

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Negotiations have been held between a subsidiary and the Government of Israel (the Office of the Chief Scientist - "OCS") to re-examine the royalties paid to the OCS during a period exceeding seven years. The management of the subsidiary estimates that the proceedings will have no material effect, and accordingly, no provision was made in the financial statements.

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, 2003 - NIS 50; December 31, 2002 - NIS 23 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 50 million in 2003, NIS 60 million in 2002 and NIS 33 million in 2001.
Future minimum payments under the non-cancelable operating leases and rental payment, for the years subsequent to balance sheet date, are as follows:

	December 31 2003
	----- (NIS thousands) -----
First year	46,379
Second year	41,441
Third year	31,854
Fourth year	16,028
Fifth year and thereafter	15,913
	----- 151,615 =====

5. Koor Corporate Venture Capital's commitment for additional investments in venture capital funds, and in start-up companies as at the signing date of the financial statements is approximately 9 million dollars.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

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- B. Commitments (cont'd)
6. During 2002, subsidiaries of M-A Industries signed long-term supply contracts for a period of five years with international companies for 17.3 million dollars per year.

Note 19 - Convertible Securities of Investee Companies

Option warrants to employees:

Certain investees issued options to their employees until 2003 inclusive. Employee entitlement to such options is usually being determined 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.

The exercise price was, in most cases, identical to the market price of the shares of subsidiary companies on the issuance date of the option warrants.

At each reporting period, Koor reviews the probability that the Options will be exercised. If a loss, as a result of dilution, following the option exercise, is expected, the Company records the loss.

Convertible debentures

See Note 15B(2).

Note 20 - Share Capital and Stock Options

- A. Share capital is composed as follows:

	December 31, 2003 Authorized	Issued and Outstanding	December 31, Authorized
	-----	-----	-----
Number of shares:			
Ordinary shares, par value of NIS 0.001 (1) (3) (4) (5)	83,932,757 =====	15,950,188 =====	84,557,334 =====
Deferred shares, par value of NIS 0.001 (2) (3) (4)	15,792,243 =====	15,156,533 =====	15,167,666 =====
Amount in nominal NIS:			
Ordinary shares, par value of NIS 0.001	83,933 =====	15,950 =====	84,557 =====
Deferred shares, par value of NIS 0.001	15,792 =====	15,157 =====	15,168 =====

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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, 2003, the share price on the TASE was NIS 171.00.

The ADS, 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, 2003 was 7.74 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 and 13,575,441 deferred shares. The amount deducted from the shareholders' equity as at the balance sheet date is adjusted NIS 277,692 thousand.
 - (4) A subsidiary of Koor - Koor Trusts (1995) Ltd. (in voluntary liquidation) - holds 624,577 Ordinary Shares of Koor which were issued to it as part of the implementation of the Company's 1995 and 1997 options plans. These shares are held by the subsidiary only for the purpose of granting them to the Company's employees, subject to receipt of the requisite approvals. Until they are granted, the subsidiary undertook that it would not have, in respect of those shares, a right to participate or vote in the general meeting of the shareholders of the Company, or a right to receive a dividend in respect of those shares. If the shares are not used for granting to Company employees as aforesaid until a reasonable time after November 2002, the Company undertook to convert them into deferred shares. On June 1, 2003, a general meeting of the shareholders of Koor resolved to convert the Ordinary shares to deferred shares.
 - (5) During 2003, the options in the employee stock option plans (See Note 20C) were exercised for 67,783 ordinary shares.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 20 - Share Capital and Stock Options (cont'd)

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 43.2 million.

After the sale was effected, in accordance with notice received from the Buyer, the Buyer holds 8.7% of the voting rights in the Company. 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 adjusted NIS 80,321 thousand.

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").

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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).

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 20 - Share Capital and Stock Options (cont'd)

C. Stock options to senior employees

1. 1997 plan: (cont'd)

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
5,039	NIS 101.38	05/2005
21,000	NIS 101.38	12/2010
26,039		

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"). All the stock options under the Plan were allotted on different dates, and after their expiry, as a result of the retirement and the end of the exercise period, and exercise, 244,158 options remained for exercise as at December 31, 2002.

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,

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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").

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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 20 - Share Capital and Stock Options (cont'd)

- C. Stock options to senior employees
- 2. 1998 plan: (cont'd)

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
3,333	NIS 101.38	07/2006
62,593	NIS 101.38	12/2010
65,926		

- 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:

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- 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.
- 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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 20 - Share Capital and Stock Options (cont'd)

C. Stock options to senior employees

- 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 -----
61,667 =====	NIS 101.38 =====	12/2010

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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 each stock option will be NIS 96 per share, linked to the CPI.
- 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 vesting of each offeree, to exercise the options for shares, will be graduated, over a three-year period from the record date, whereby at the end of each calendar half-year, one-sixth of the total number of options issued 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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 20 - Share Capital and Stock Options (cont'd)

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C. Stock options to senior employees (cont'd)

4. 2003 Plan: (cont'd)

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, 2003 is 951,789 options.

Changes in the options during 2003:

	1997 Plan	1998 Plan	2000 Plan	2003 Plan	T
	-----	-----	-----	-----	-----
Balance as at beginning of year	36,321	244,158	161,667	-	442,
Granted	-	-	-	982,125	982,
Exercised	(10,282)	(101,071)	(53,333)	(30,336)	* (195,
Expired	-	(77,161)	(46,667)	-	(123,
	-----	-----	-----	-----	-----
Balance as at end of year	26,039	65,926	61,667	951,789	1,105,
	=====	=====	=====	=====	=====

* Because of the "Benefit Component Method", a total of 67,783 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.

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Notes to the Financial Statements

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

- 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, 2003:

	Forward Transaction	Call options	P optio
	-----	-----	-----
	NIS thousands		
	-----	-----	-----
Purchase of Dollars in exchange for:			
NIS	6,569	223,387	332,80
European currencies	169,467	585,034	177,07
Brazilian Real	135,749	-	
Japanese Yen	13,137	-	
	-----	-----	-----
	324,922	808,421	509,88
	=====	=====	=====
Sale of Dollars in exchange for:			
NIS	45,980	175,160	
European currencies	39,849	99,570	692,32
Brazilian Real	-	-	
	-----	-----	-----
	85,829	274,730	692,32
	=====	=====	=====
Sale of Euro in exchange for Swiss franc	13,137	-	
	=====	=====	=====

- C. The company entered into interest swap agreements (IRS) totaling 50 million dollars, in order to reduce exposure to fluctuations in interest rates. In the transaction, a variable-interest was exchanged for a fixed-interest.

- D. Fair value of financial instruments:

Condensed data of monetary assets and liabilities, whose fair value as at December 31, 2003, based on their market value, is significantly different from those presented in the financial statements, is as follows:

	Carrying amount	Fair value
	-----	-----
	NIS millions	
	-----	-----
Investments in affiliates	870	985

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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 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, 2003:	
Receivables insured by credit card companies	553
Receivables insured by foreign trade risk insurance	18
Receivables - Government authorities and Bezeq	43
Other receivables, including checks and credit card companies	1,447

Total, including non-current receivables	2,061
	=====

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

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

Notes to the Financial Statements

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

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F. Linkage terms of monetary balances:

(1) Consolidated

	December 31, 2003				
	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Total	In foreign currency or linked thereto
	NIS thousands				
Assets					
Current assets:					
Cash and cash equivalents	491,889	-	101,514	593,403	694,700
Short-term deposits and investments	87,534	150,495	128,780	366,809	356,437
Trade receivables	1,794,141	11,945	246,375	2,052,461	1,617,799
Other accounts receivable	139,050	25,770	85,608	250,428	205,932
Investments and other long-term receivables	217,970	59,565	2,823	280,358	225,441
	<u>2,730,584</u>	<u>247,775</u>	<u>565,100</u>	<u>3,543,459</u>	<u>3,100,309</u>
Liabilities					
Current liabilities:					
Credits from banks and others (not including current maturities of long-term liabilities)	647,098	-	267,162	914,260	978,277
Trade payables	1,030,693	-	312,090	1,342,783	892,449
Other accounts payable	642,646	171,487	407,953	1,222,086	665,569
Long-term loans and debentures (including current maturities)	2,488,222	1,627,955	7,072	4,123,249	3,255,314
	<u>4,808,659</u>	<u>1,799,442</u>	<u>994,277</u>	<u>7,602,378</u>	<u>5,791,609</u>

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Notes to the Financial Statements

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

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

(2) Company

	December 31, 2003				
	In foreign currency or linked thereto	Linked to the CPI	Unlinked	Total	In foreign currency or linked thereto
	NIS thousands				
Assets					
Cash and cash equivalents	4,066	-	5,139	9,205	14,484
Short-term deposits and investments	57,202	144,133	109,471	310,806	252,253
Other receivables	11,074	-	23,598	34,672	18,600
Short term loans to investees companies	-	13,951	-	13,951	-
Other investments and receivables	109	32,028	4	32,141	116
Investments and other long-term receivables: Investees companies (including current maturities of loans)	12,753	53,449	1,319,870	1,386,072	5,948
	-----	-----	-----	-----	-----
	85,204	243,561	1,458,082	1,786,847	291,402
	=====	=====	=====	=====	=====
Liabilities					
Current liabilities:					
Credits from banks and others (not including current maturities of long-term liabilities)	169,704	-	5	169,709	176,148
Trade payables	85	-	418	503	67
Other accounts payable	4,408	12,057	26,858	43,323	7,547
Long-term liabilities (including current maturities of loans)	373,268	1,648,201	8,125	2,029,594	617,585
	-----	-----	-----	-----	-----
	547,465	1,660,258	35,406	2,243,129	801,347
	=====	=====	=====	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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	
	2003	2002
	NIS thousands	
Credit from banks	392,341	431,165
Loans from banks and others and debentures (including current maturities), see Note 15, and also C and D below	1,288,411	1,797,463
	1,680,752	2,228,628

- C. 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)

- D. Guarantees to banks and others for loans and for assuring credit lines and other guarantees in favor of:

	Consolidated		Company	
	December 31		December 31	
	2003	2002	2003	2002
	NIS thousands		NIS thousands	
Subsidiaries	-	-	314,125	289,526

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Affiliates	340	6,831	340	6,831
Others	67,723	110,033	154	15,136
	-----	-----	-----	-----
	68,063	116,864	314,619	311,493
	=====	=====	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 22 - Liens and Guarantees (cont'd)

- D. Guarantees to banks and others for loans and for assuring credit lines and other guarantees: (cont'd)
- 1) In certain cases when advances from customers are received, a subsidiaries 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 302,782 thousand, and NIS 426,898 thousand, as at the years ending December 31, 2003 and 2002, respectively.
 - 2) In connection with the Bezeq agreement to transfer ownership of public switching, Bezeq received from Koor a guarantee in the amount of NIS 115 million. See also Note 18A(5).
 - 3) A consolidated company signed a guarantee for a major customer to pay any amounts up to 40 million dollars in relation to an indemnification, that the consolidated company 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 consolidated company 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 85 million dollars. (December 31, 2002 approximately 63 million dollars).
 - 5) Tadiran Com. was sold to the purchasing company in a transaction of representations. According to the terms of the transaction, if it transpires that the condition of Tadiran Com. is materially different from the representation made, the purchaser will be entitled to compensation from Tadiran. Under the terms of the sale, the commitment with respect to the accuracy of a large part of the material representations was limited in time, and has expired. Koor is a guarantor to the commitments of Tadiran.
 - 6) There are also guarantees, in an unlimited amount, to ensure

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due performance of work and customer agreements, product warranty, advance payments received and guarantees on behalf of liabilities to customs and excise authorities.

- 7) As a condition for the continued availability, see Notes 3 and 18.

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Notes to the Financial Statements

Note 23 - Data concerning Items in Statements of Operations

A. Revenues from sales and services - net (1) (2) (3):

Consolidated:

	Year ended December	
	2003	2002
	NIS thousands	
Local:		
Industrial operations	757,759	899,768
Trading operations	262,692	*644,591
Abroad:		
Industrial operations - export and international operations	5,902,716	5,157,580
Trading operations	767,263	*397,851
	7,690,430	7,099,790
(1) Not including agency sales	386,491	315,124
(2) Including sales to major customer	753,863	415,442
(3) Including sales under long-term credit arrangements (see also Note 2Q)	-	-
(4) Revenues and expenses relating to work performed under long-term contracts:		
Revenues	979,950	1,359,621
Costs	(793,260)	(949,898)
	186,690	409,723

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* Reclassified

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Koor Industries Ltd. (An

Notes to the Financial Statements

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

B. Cost of sales and services - consolidated:

	Year ended Decem	
	2003	2002
	NIS thousand	
Industrial operations:		
Materials	2,757,523	2,766,000
Labor	775,567	906,000
Subcontracted work	49,725	68,000
Depreciation and amortization	180,228	189,000
Research and development expenses, net (*)	221,343	256,000
Other manufacturing expenses	533,736	493,000
	4,518,122	4,680,000
Less - expenses charged to cost of fixed assets	8,027	10,000
	4,510,095	4,669,000
Decrease in inventory of goods and work in process	43,428	13,000
	4,553,523	4,682,000
Increase in inventory of finished goods	(18,778)	(208,000)
	4,534,745	4,473,000
Trading operations:		
Merchandise	537,512	533,000
Labor	93,235	69,000
Depreciation	26,873	29,000
Others	200,579	209,000
	858,199	841,000

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	5,392,944	5,315,
	=====	=====
(*) Net of grants and participations that were received and royalties that were paid, net	(1,952)	
	=====	=====

C. Selling and marketing expenses - consolidated:

	Year ended Decem	

	2003	

	NIS thousand	

Salaries	258,260	251,
Commissions	142,256	97,
Advertising expenses	30,384	45,
Depreciation and amortization	97,086	78,
Other	412,471	341,
	-----	-----
	940,457	814,
	=====	=====

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Koor Industries Ltd.

Notes to the Financial Statements

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

D. General and administrative expenses:

	Consolidated			

	Year ended December 31			Year end
	-----			-----
	2003	2002	2001	2003
	-----	-----	-----	-----
	NIS thousands			NIS
	-----			-----
Salaries	217,525	234,098	235,199	17,325
Bad and doubtful debts	36,903	33,933	29,983	-
Depreciation and amortization	24,070	30,797	28,996	1,342
Other	182,246	190,541	230,017	22,497
	-----	-----	-----	-----
	460,744	489,369	524,195	41,164
	=====	=====	=====	=====

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E. Financing expenses (income), net:

	Consolidated			
	Year ended December 31			Year end
	2003	2002	2001	2003
	NIS thousands			NIS
In respect of convertible debentures	15,319	17,825	6,576	612
In respect of debentures	-	651	2,301	-
In respect of long-term loans	141,078	240,713	364,845	94,641
In respect of short-term loans and credit	182,868	168,478	214,512	(2,458)
Amortization of capital raising expenses	2,106	2,250	739	-
Losses (gains) from marketable securities, net	(72,681)	44,112	(52,392)	(61,974)
Interest capitalized to fixed assets and work in process	(371)	(14,860)	(15,176)	-
Expenses (income) from investees, net	-	-	-	(1,251)
Expenses (income) from deposits and others, net	(40,119)	(50,732)	(88,968)	5,538
	228,200	408,437	432,437	35,108

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Koor Industries Ltd. (An

Notes to the Financial Statements

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

F. Other income (expenses), net

1. Consolidated

Year ended Decem

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	2003	2002
	NIS thousand	
Sale of investments and activities in investees (including changes in rates of holding)	32,916	342,300
Expenses relating to the termination, sale of activities and sale and write down of assets, net	(107,306)	(164,400)
Supplemental severance pay and pensions	(28,279)	(126,900)
Management services affiliated companies	2,272	2,600
Joint ventures, net	-	-
Compensation for damages	5,580	37,900
Amortization of goodwill	(118,736)	(91,000)
Miscellaneous, net	(6,168)	5,300
	(219,721)	5,800

2. Company

	Year ended December 31	
	2003	2002
	NIS thousand	
Profit (loss) from sale of investments in investee companies	7,039	336,600
Net changes in value of long-term assets	(12,382)	(10,000)
Rental income, net*	7,216	9,200
Capital gain from sale of fixed assets	(96)	29,100
Miscellaneous, net	3,914	400
	5,691	365,400
* Depreciation included in the Item	668	1,200

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Koor Industries Ltd. (

Notes to the Financial Statements

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

G. Equity of the Koor Group in the operating results of affiliates, net

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1. Consolidated

	Year ended Decem	
	2003	2002
	NIS thousand	
Affiliate companies, net (1)	108,049	245,000
Amortization of goodwill (2)	5,774	6,000
	113,823	252,000
(1) Including loss from a discontinued operation in an affiliate	-	110,000
(2) Including write-off of goodwill in an affiliate	-	-

2. Company

	Year ended Decem	
	2003	2002
	NIS thousand	
Equity of Koor in operating results for the year (1)	64,790	(900,000)
Amortization of goodwill (2)	(28,520)	(23,000)
	36,270	(923,000)
Dividend received\proposed	23,043	28,000
(1) Including loss from a discontinued operation in an affiliate	-	110,000
(2) Including write-off of goodwill in investee companies	-	-

H. Results of discontinued operations

Pre-tax loss on income

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Effect of tax
Minority share

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Koor Industries

Notes to the Financial Statements

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

I. Income (expenses) from investee companies and their participation in expenses - Co

	Year ended December 31				
	2003		2002		Consolidat compani
	Consolidated companies	Affiliated companies	Consolidated companies	Affiliated companies	
	NIS thousands				
Income:					
Management services	25,006	-	35,573	-	34,16
Administrative expenses - Salary and other administrative expenses	1,679	-	9,002	-	7,99
Financing income (expenses), net	2,828	5	(6,480)	2	5,94
Rental income, net	-	-	654	-	

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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 affiliate 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 Makhteshim Agan, considered a world's foremost manufacturer of generic crop protection solutions. Makhteshim Agan produces a full range of products, including insecticides, fungicides and herbicides, as well as plant growth regulators. In addition, the Company 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 the affiliated company Knafayim-Arkia, which holds 74% of the Arkia airline company which provides aviation and holiday services and leases aircrafts to other companies. Additional activities include international trade through several companies.

In 2001 the construction and infrastructures segment discontinued operations due to the discontinuation of activity of USM (which was consolidated in the construction and infrastructures segment. See Note 23H.

- 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.

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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 by industry segments are those assets that are used by Koor in its activities in each segment.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

C. Data regarding business segments of the Koor Group:

	Year ended December 31				
	2003		2002		NIS th
	NIS thousands	%	NIS thousands	%	NIS th
Revenues from sales and services:					
Segments:					
Telecommunication	796,059	10.35	814,108	11.47	1,21
Defense electronics	1,286,432	16.73	1,687,551	23.77	1,41
Agro-chemicals and other chemicals	5,191,913	67.51	4,140,471	58.32	4,10
Others	416,026	5.41	457,660	6.44	73
Total segments	7,690,430	100.00	7,099,790	100.00	7,46

	Year ended December 31				
	2003		2002		NIS th
	NIS thousands	%	NIS thousands	%	NIS th
Pre-tax earnings (losses):					
Operating earnings (loss) according to segments:					

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Telecommunication	3,158	0.34	(178,623)	(34.43)	(
Defense electronics	(4,294)	(0.46)	78,853	15.20	
Agro-chemicals and other chemicals	949,290	102.61	658,507	126.93	
Venture capital investments	(1,445)	(0.16)	(7,894)	(1.52)	
Others	(21,536)	(2.33)	(32,062)	(6.18)	
	-----	-----	-----	-----	
Total segments	925,173	100.00	518,781	100.00	
	=====	=====	=====	=====	==
Joint general expenses	(28,888)		(38,917)		
	-----		-----		
Total operating earnings	896,285		479,864		
Financing expenses, net	(228,200)		(408,437)		(
Other income (expenses), net	(219,721)		5,824		(
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	-		(390,901)		
	-----		-----		--
Pre-tax earnings (losses)	448,364		(313,650)		(
	=====		=====		==

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Koor Industries Lt

Notes to the Financial Statements

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			
2003		2002	
NIS thousands	%	NIS thousands	%
-----	-----	-----	-----

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Telecommunications	(101,795)	89.43	(246,998)	97.98
Defense electronics	(130)	0.11	(172)	0.07
Venture capital investments	(329)	0.30	(329)	0.13
Others	(11,569)	10.16	(4,592)	1.82
	-----	-----	-----	-----
	(113,823)	100.00	(252,091)	100.00
	=====	=====	=====	=====

	December 31		
	2003		*2002
	NIS thousands	%	NIS thousands
	-----	-----	-----
Identifiable assets:			
Segments:			
Telecommunications	778,182	7.50	923,686
Defense electronics	1,104,515	10.66	1,379,797
Agro-chemicals and other chemicals	7,329,815	70.69	7,640,956
Venture capital investments	223,733	2.16	284,283
Others	932,586	8.99	1,105,797
	-----	-----	-----
Total segments	10,368,831	100.00	11,334,519
		=====	
Corporate assets	557,162		1,056,983
Affiliates**	943,764		1,041,296
	-----		-----
	11,869,757		13,432,798
	=====		=====

** Including an investment in ECI as at December 31, 2003 and 2002 in the amount of NIS 810 million and NIS 810 million respectively, which operates in the telecommunications

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Koor Industries Ltd. (An Israeli

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

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

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	December 31			
	2003		2002	
	NIS thousands	%	NIS thousands	
Identifiable liabilities				
Segments:				
Telecommunications	263,873	9.12	395,125	13.
Defense electronics	728,443	25.16	912,345	30.
Agro-chemicals and other chemicals	1,733,760	59.89	1,469,201	49.
Venture capital investments	8,930	0.31	-	
Others	159,870	5.52	213,876	7.
Total segments	2,894,876	100.00	2,990,547	100.
Corporate liabilities	63,676		79,841	
	2,958,552		3,070,388	

	Year ended December 31					
	2003		2002		2001	
	NIS thousands	%	NIS thousands	%	NIS thousands	
Capital investments:						
Segments:						
Telecommunications	7,173	2.25	15,554	1.19	59,685	
Defense electronics	28,210	8.85	45,753	3.48	53,187	
Agro-chemicals and other chemicals	277,195	86.94	1,241,091	94.53	821,754	
Venture capital investments	-	-	-	-	2,928	
Others	6,262	1.96	10,464	0.80	36,487	
Total segments	318,840	100.00	1,312,862	100.00	974,041	
Discontinued activity	-		-		194	
Corporate assets	392		108		386	
	319,232		1,312,970		974,621	

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

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

	Year ended December 31					
	2003		2002		2001	
	NIS thousands	%	NIS thousands	%	NIS thousands	
Depreciation and amortization:						
Segments:						
Telecommunications	44,696	10.17	57,664	13.67	62,547	
Defense electronics	39,297	8.94	49,825	11.81	50,718	
Agro-chemicals and other chemicals	318,492	72.47	278,482	66.03	238,712	
Venture capital investments		-		-	1,859	
Others	37,029	8.42	35,792	8.49	48,436	
Total segments	439,514	100.00	421,763	100.00	402,272	
Discontinued activity					12,228	
Corporate assets	13,050		1,817		2,744	
	452,564		423,580		417,244	

D. Revenues from sales and services by geographic location

	Year ended December 31		
	2003	2002	2001
	NIS thousands		
North America	1,152,009	1,125,925	1,225,494
Europe	2,473,635	1,864,012	1,906,611
South America	1,670,256	1,213,485	1,663,223

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Asia and Australia	1,050,873	1,123,387	923,134
Africa	323,206	228,632	228,127
Israel	1,020,451	1,544,349	1,516,830
	-----	-----	-----
	7,690,430	7,099,790	7,463,419
	=====	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

E. Assets by geographic location of manufacturing operation

	December 31	
	2003	2002
	-----	-----
	NIS thousands	NIS thousands
	-----	-----
Israel	8,636,399	11,371,319
South America	1,530,178	1,502,393
Europe	1,495,176	297,074
United States	167,808	177,698
Others	40,196	84,314
	-----	-----
	11,869,757	13,432,798
	=====	=====

F. Capital investments in assets by geographic location

	December 31	
	2003	2002
	-----	-----
	NIS thousands	NIS thousands
	-----	-----
Israel	248,131	1,239,314
Brazil	40,725	56,581
United States	2,719	9,463
Others	27,657	7,612
	-----	-----
	319,232	1,312,970
	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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.

- C. Benefits to interested parties - Company
1. Directors (*)

	Year ended December 31		
	2003	2002	2001
	NIS thousands		

Directors not employed by the Company:
Annual compensation and participation
in meetings:

Claridge Group	115	245	157
	=====	=====	=====
Number of directors	3	3	3
	=====	=====	=====
Poalim Assets (Shares) Ltd.	-	95	130

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Number of directors	=====	=====	=====
	-	2	2
	=====	=====	=====
Other directors	442	533	482
	=====	=====	=====
Number of directors	8	10	9
	=====	=====	=====

(*) Including directors who have been replaced during the year.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 25 - Transactions and Balances with Interested Parties (cont'd)

- C. Benefits to interested parties (cont'd)
- 2. Consultancy services

	Year ended December 31		
	2003	2002	2001
	NIS thousands		
	-----	-----	-----
Claridge	1,789	1,871	1,800
	=====	=====	=====
Poalim Capital Markets and Investment Ltd.	-	1,433	1,800
	=====	=====	=====

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

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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.

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		
	2003	2002	2001
	NIS thousands		
Net earnings (loss) used in the computation of earnings (loss) per NIS 1 par value of shares	46,362 =====	(766,969) =====	(2,650,920) =====

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Koor Industries Ltd. (An Israeli Co)

Notes to the Financial Statements

Note 26 - Earnings (Loss) Per Share (cont'd)

- 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	
	2003	2002
Total share capital used in the computation of Earnings (loss) per share	15,716,725 =====	15,173,291 =====

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- 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 4% (December 31, 2002 - 6%, December 31, 2001 - 4%) for securities linked to the CPI.

Note 27 - Events Subsequent to the Balance Sheet Date

1. In March 2004, the Board of directors of ECI resolved to distribute 7.6 million shares of ECTel as a dividend to the shareholders of ECI. After this distribution, which is subject, inter alia, to the approval of the Court, ECI will hold about 16% of the shares in ECTel, and Koor will hold about 13% of these shares.
2. Subsequent to the balance sheet date, Cisco decided to purchase all of the shares of Riverhead Inc. from its shareholders, in consideration for 39 million dollars. The share of Koor CVC in the consideration amounts to approximately 7 million dollars. The projected pre-tax gain to Koor is about 4 million dollars.
3. With respect to the sale of 7.3% of the shares of M-A Industries, see Note 3.C(10).
4. With respect to the issuance of convertible securities to Knafayim shares, see Note 3.F(2).

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 28 - Material Differences Between Israeli and US GAAP and their Effect on the Financial Statements

- A. 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 consolidated financial statements of Koor are expressed in terms of a uniform monetary unit - the Israeli shekel inflation-adjusted which follows adjustment in respect to the changes in the Consumer Price Index (CPI). (See Note 2B).

In accordance with US GAAP:

The financial statements should be expressed in current nominal historical monetary terms.

Measuring on the basis of the change in the CPI, which

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reflects the effect of changes in the general price level in the Israeli economy, provides a very valid picture of the financial position, results of operations and the cash flows of the Koor Group for both Israeli and US accounting purposes.

In view of the above, no data on the effect of the differences between measurements on the basis of cost adjusted to the CPI or on the basis of historical cost, were included.

2. ECI and TTL - merger

In accordance with Israeli GAAP:

The merger between ECI and TTL in 1999 was recorded in Koor's financial statement at book values and treated based on the accounting principles in exchange of similar asset transactions. Pursuant to the merger agreement, shares of TTL held by Tadiran were exchanged for ECI shares at an exchange rate determined in the merger agreement.

In accordance with US GAAP:

According to EITF 98-3 the merger of ECI and TTL is not considered as an exchange of similar assets in respect of Koor and Tadiran and therefore a capital gain from the realization of TTL is recorded and an original differential is recorded on behalf of ECI and allocated to goodwill. In 2001 Koor's management decided to reduce the book value of the investment in ECI in respect of decrease in value of an other than temporary nature. Therefore, the Company wrote-off the balance of the goodwill in the amount of NIS 164 million.

In 2001 Tadiran sold its shareholding in ECI to Koor. Therefore, the deferred taxes which were created during the merger were realized and an income tax expense in the amount of NIS 133 million was recorded.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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. 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:

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In accordance with FAS No. 15 - "Accounting by Debtors and Creditors for doubtful Debt Restructuring" future interest payments must be 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.

4. Deferred taxes

a) Deferred taxes in respect to inflation adjustment differences

In accordance with Israeli GAAP:

Koor does not provide deferred taxes in respect to adjustment differences to the CPI for assets defined as "immune assets" in the Law for Taxation Under Inflationary Conditions and for which the depreciation period is at least 20 years.

In accordance with US GAAP:

Under FAS No. 109, a provision for deferred taxes should be made for all temporary differences, without relation to the period of amortization of the assets.

b) Deferred taxes in companies which adjust their financial statements for inflation on the basis of changes in the US dollar exchange rate.

In accordance with Israeli GAAP:

Certain companies, which adjust their financial statements on the basis of changes in the Dollar exchange rate, create deferred taxes in respect to all the differences between the amounts of assets (mainly in respect to fixed assets and inventory) as stated in the financial statements and the amounts for tax purposes.

In accordance with US GAAP:

According to paragraph 9(f) of FAS No. 109, deferred taxes should not be provided in respect to differences, the source of which is in the difference of assets and liabilities for accounting purposes and their amounts for tax purposes, where the source of the tax difference stems from different measuring bases for accounting purposes and for tax purposes.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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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)

4. Deferred taxes (cont'd)

c) Earnings from "Approved Enterprises"

Under the Israeli Law for the Encouragement of Capital Investments, 1959, a 25% tax rate is applicable on the profits, when an "approved enterprise" is going the grant track, during the benefits period.

Dividends paid to shareholders from the earnings of an "approved enterprise" are subject to income tax at a rate of 15%. A company that received such a dividend is entitled to a 15% tax credit, if and when this dividend is paid to its shareholders.

An "approved enterprise" which chooses the "alternative benefits" track is exempted 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 to 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 tax should not be provided in respect to the undistributed tax-exempt earnings of an "approved enterprise" of subsidiaries, whose earnings have been reinvested and will not be distributed to the company shareholders.

Koor has not provided deferred tax in respect to 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:

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 an additional tax.

5. Handling of "benefit component" in respect of options issued to employees

In accordance with Israeli GAAP:

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The overall "benefit component", in respect to options granted to employees of Koor, is not charged as an expense in the statement of operations.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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. Handling of "benefit component" in respect of options issued to employees (cont'd)

In accordance with US GAAP:

a) Fixed Option Plan:

Under US GAAP (APB-25), the "benefit component" is measured as the difference between the share market price and the exercise price of the option, at the date of grant. The benefit 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 Plans:

In the event that the options have been issued to employees for the future performance of work or services, the benefit is charged to salary expense in the statement of operations. The "benefit component" is measured as the difference between the share market price 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.

6. The accounting treatment of quoted securities:

In accordance with Israeli GAAP:

Quoted securities which constitute a short-term investment (see Note 2F) are stated at market value. Quoted securities which constitute a permanent investment is 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.

In accordance with US GAAP:

FAS No. 115 divides quoted securities, into three types: securities held for a short period and traded at a high

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frequency (trading securities), available for sale securities and held to maturity securities.

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.

Most of the securities held by the Company are available-for-sale securities.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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)

7. Allocation of proceeds from an issuance to debentures, 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.

8. Convertible securities of investee companies

In accordance with Israeli GAAP: According to Opinion 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

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its holdings, because of share options being exercised or debentures being converted, is recorded only at the time of exercise or conversion.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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)

9. Employee severance benefits as a part of an efficiency program (up to and including 2002):

In accordance with Israeli GAAP:

Employee severance benefits, as part of future anticipated dismissals, are recorded when management decides on the dismissals, and/or when management intended on the dismissals.

In accordance with US GAAP:

According to the provisions of EITF 94-3, which was in effect until December 31, 2002, employee severance benefits, when dismissal is part of an efficiency program, are charged as an expense in the financial statements only when all the following conditions exist:

- a) Management has the appropriate authority to dismiss employees and the efficiency program includes all employee severance benefits.
- b) Management notified employees of its intention to dismiss them, while supplying them with full details regarding employee severance benefits.
- c) The plan for dismissals states specifically the names of the dismissed employees, their positions and their duties.
- d) The period of time for completion of the program of dismissals indicates that a significant change in the plan is not likely to occur.

10. 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 only if their exercise or conversion is considered to be probable.

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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 is 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 outstanding during the year.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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)

11. Acquiring an Investment in stages:

In accordance with Israeli GAAP:

Opinion 68 determines that when acquiring an investment in stages, it is necessary to calculate the original differentials and record the investment according to the equity method from the date when the holding constitutes an initial material influence onwards.

In accordance with US GAAP:

When acquiring an investment in stages, it is necessary to calculate post factum for each acquisition the original differentials created by the acquisition, on the date an initial influence becomes material, even if on that date the Company did not yet have a material influence, and to implement the equity method retroactively.

12. Venture capital investments:

In accordance with Israeli GAAP:

Venture capital fund investments in venture capital investments will be represented 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 will be represented according to their fair value.

13. Revenue recognition - SAB 101:

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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 criteria for revenue recognition which is stricter with the revenue recognition rules, which are to be implemented retroactively to the beginning of 2000, by way of cumulative effect to the beginning of the year and presentation of the previous quarters once again.

ECI implemented these guidelines in its statements, which are prepared in accordance with US GAAP.

The cumulative effect of the sales cancelled upon initial adoption of SAB 101, was spread over the years 2000 through 2003. Commencing with 2004, there will be no additional effect deriving from the cancellation 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 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. Therefore, cumulative effect has been recorded in the adjustment note in 2000 in the sum of NIS 39,456 thousand.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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. Exchange of assets:

In accordance with Israeli GAAP:

In 2001 NetEye shares were transferred from Telrad to ECTel, as described in Note 3D(2), the transaction treated based on the accounting principles in Exchange of Similar Assets transactions and therefore neither a profit nor a loss was recorded.

In accordance with US GAAP:

According to EITF 98/3 this transaction is not seen as an Exchange of Similar Assets transaction and therefore a profit of NIS 29,166 thousand was recorded.

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During 2003 Telrad sold portions of ECTel's shares, the profit recorded under US GAAP was lower than the one recorded under Israeli GAAP as their book value was lower in accordance with Israeli GAAP.

In 2001 Millenia shares previously held by the minority shareholders, were purchased in exchange for M-A Industries' shares (as described in Note 3C(3)). This transaction was also treated as an Exchange of Similar Assets under the Israel GAAP. According to the US GAAP this transaction was not seen as an exchange of similar assets and therefore a profit of NIS 6,439 thousand was recorded.

In 2002 a consolidated company of Telrad was merged with another company. According to Israeli GAAP, this transaction is treated as an Exchange of Similar Assets, and therefore no profit is recognized. According to US GAAP, the transaction is not an Exchange of Similar Assets and therefore a profit of NIS 15,105 thousand was recorded.

15. Financial Derivatives

In accordance with Israeli GAAP:
The Company applied FAS 52, FAS 80 and EITF 90-17 to its financial derivatives.

In accordance with US GAAP:
As of 2001, the Company applied FAS 133 to the derivatives based on the cumulative effect at the beginning of the year (NIS 2,718 thousand).

According to US GAAP, the financial derivatives of the Company are stated at fair value and changes in the fair value are charged to the statement of operations in the period they occurred.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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. Securitization agreement of M-A Industries and its consolidated companies

In accordance with Israeli GAAP:
This transaction was treated as a sales transaction, only in relation to the sale of customer debts which were included in the securitization transaction, and whose associated control and risks have been completely transferred to the purchaser, and the proceeds were received in cash or with an

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undeferred liability.

In accordance with US GAAP:

Until 2002, the transaction did not meet the criteria set out in FAS 140 for the classification as a sales transaction. Therefore, the transaction was treated as a secured borrowing, and the balance of customers in 2002 increased by 101.8 million dollars and by 95.5 million dollars in 2001, against a similar increase in short-term credit.

As of July 2003, the transaction meets the criteria set out in FAS 140 and is classified as a sale transaction.

17. Impairment of Assets

In accordance with Israeli GAAP:

The Company applied Standard No. 15 under which the Company needs 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 which the last impairment was recognized.

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 long-lived asset is recorded only if the undiscounted cash flows of the related asset does not cover its book value.

Under APB 18 a loss is recorded only when the impairment investees is other than temporary.

Both under FAS 144 and under APB 18 reversals of impairments are not allowed, unless the assets are held for sales.

ECI's Impairment:

In accordance with Israeli GAAP, on September 30, 2002 the Company wrote down its 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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 28 - Material Differences Between Israeli and US GAAP and their Effect

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on the Financial Statements (cont'd)

A. Differences between Israel GAAP and US GAAP (cont'd)

17. Impairment of Assets (cont'd)

ECI's Impairment: (cont'd)

In November 2003, the Company reversed the impairment in the amount of NIS 73 million. The cancellation was recorded against the capital reserve from translation differences (credit) which was realized when the provision was recorded.

In accordance with US GAAP, under FAS 52, a capital fund from translation differences will be realized 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. In addition, the excess of Koor's share in ECI's shareholders equity over its investment in ECI was attributed to ECI's non-current assets.

Due to the fact that Koor's share in ECI's shareholders' equity is 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.

According to US GAAP the impairment was not reversed.

18. Goodwill and Other assets:

In accordance with Israeli GAAP:

Goodwill is amortized over its economic life but no more than 20 years. Goodwill is monitored for a decrease in value where there are indications indicating a permanent decrease in the value of the goodwill.

In accordance with US GAAP:

Starting on January 1, 2002, goodwill balances will not be amortized systematically but will be monitored by means of an impairment test to be 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 will be on January 1, 2002. Amortization of goodwill caused following the first implementation of the impairment test on January 1, 2002, will be 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.

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Koor Industries Ltd. (An Israel

Notes to the Financial Statements

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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)

19. Adjustment on net loss of ECI as being reported according to the US GAAP to the net loss as being reported according to the Israeli GAAP:

Net loss of ECI based on its reported profit according to US GAAP

Adjustments:

Timing differentials for revenue recognition for implementation of SAB 101

Finance income - FAS 133

Tax expenses

Write-down of excess cost attributed to intangible assets

Profit from marketable securities

Decline in value of assets

Net loss of ECI according to Israeli GAAP

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Koor Industries Ltd. (An

Notes to the Financial Statements

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 end

	2003

	NIS t

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a)	Net earnings (loss) as reported, according to Israeli GAAP	46,362	(7)
		-----	-----
	Amortization of deferred interest in respect of the restructuring of debts	-	
	Deferred taxes	(67,144)	
	Salary expenses in respect of share options issued to employees	(185,276)	
	Loss (gain) from marketable securities, net	(58,319)	
	Provisions for anticipated losses from realization of convertible securities in investee companies	50,729	
	Amortization of discount in respect of convertible debentures	(18)	
	Severance pay arising from an efficiency program	(10,181)	
	Capital gain from a decline in holding in consolidated company	-	
	Acquiring an investment in stage	-	
	Venture capital investments	15,790	(
	Amortization of goodwill in accordance with a merger of ECI and TTL	-	
	Temporary differences resulting from recognition of revenue arising from application of SAB 101	7,949	
	Profit from exchange of assets	-	
	Discontinuing activities	-	
	Impairment in value	(4,983)	
	Differences from investee due to impairment previously recorded	(10,583)	(
	Foreign currency translation due to impairment	(9,093)	(1
	Amortization of goodwill and other assets	29,533	
	Derivatives (FAS 133)	(34,002)	(
	Other	1,078	
		-----	-----
		(274,520)	
	Income taxes	1,287	
	Minority interests in respect of the above differences	121,563	(
		-----	-----
		(151,670)	
		-----	-----
	Cumulative effect as beginning of the year	-	
		-----	-----
		(151,670)	
		-----	-----
	Loss according to US GAAP	(105,308)	(7
		=====	=====

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Koor Industries Ltd. (An I

Notes to the Financial Statements

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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 D	
	2003	2002
		NIS
Basic and diluted earnings per ordinary share:		
As reported according to Israeli GAAP	3.19	(50.5)
As reported according to US GAAP	(6.81)	(50.1)
Weighted average of number of shares and share equivalents according to US GAAP	15,474,614	15,173,29

Share equivalents are not reflected in US GAAP due to the fact that they are an

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Koor Industries Ltd.

Notes to the Financial Statements

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:

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December 31

	2003		2002	
	As reported	Adjustments	US GAAP	As reported
NIS thousands				
Investments in affiliates	943,764	(60,839)	882,925	1,041,296
Customers (7)	2,052,461	10,847	2,063,308	2,002,680
Investments and other receivables	483,384	24,865	508,249	571,539
Fixed assets, net	2,928,407	11,455	2,939,862	
Intangible assets after amortization (8)	2,121,083	119,357	2,240,440	2,396,817
Total assets	11,869,757	105,685	11,975,442	13,445,813
Other payables (6)	1,270,217	75,551	1,345,768	1,394,455
Short-term liabilities (7)	1,577,402	-	1,577,402	2,315,499
Convertible debentures (3)	340,270	-	340,270	397,504
Deferred taxes (2)	199,787	69,681	269,468	208,464
Minority interests (5)	1,736,531	38,363	1,774,894	1,528,410
Capital reserve for "available for sale" securities (1)	-	(30,074)	(30,074)	-
Capital reserves (3) (4) (9)	2,367,341	224,217	2,591,558	2,443,490
Retained losses (5)	(1,111,142)	(272,056)	(1,383,198)	(1,008,379)
Total shareholders' equity	1,740,393	(77,913)	1,662,480	1,727,169

- (1) Adjustment of value of investment securities to market value.
(2) Change in deferred taxes.
(3) Debentures issued with stock options.
(4) Share options issued to employees.
(5) Effects of the reconciliation to US GAAP.
(6) Provision for employee severance benefits resulting from an efficiency program and financial derivatives.
(7) Securitization agreement, customers revaluation.
(8) Original differentials arising from the exchange of shares in the merger, and increasing the holdings in a consolidated company, reversal of systematic provisions related to goodwill and intangible assets.
(9) Cumulative foreign currency translation adjustments, cancellation of provision decline in value of autonomous investee.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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)

3. Comprehensive loss

"Comprehensive earnings (loss)" 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 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		
	2003	2002	2001
	NIS thousands		
Net loss according to US GAAP	(105,308)	(761,561)	(2,624,9
Other comprehensive earnings, after tax:			
Adjustments from translation of financial statements of investee companies	(149,231)	395,432	283,5
Unrealized gains (loss) from securities	32,572	(54,145)	13,6
Total other comprehensive earnings (loss)	(116,659)	341,287	297,2
Total comprehensive loss	(221,967)	(420,274)	(2,327,7

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[Letterhead of Brightman Almagor, a Member Firm of Deloitte & Touche]

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SCOPUS NETWORK TECHNOLOGIES LTD.

We have audited the accompanying balance sheets of Scopus Network Technologies Ltd. ("the Company") as of December 31, 2003 and 2002 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, 2003. 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 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 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, 2003 and 2002, 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, 2003, in conformity with generally accepted accounting principles in Israel.

Accounting principles generally accepted in Israel vary in certain respects from accounting principles generally accepted in the United States of America. 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 income for each of the three years in the period ended December 31, 2003, its shareholders' equity and its financial position as of December 31, 2003 and 2002 as reported in these 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
March 17, 2004

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[Letterhead of Kost Forer Gabbay & Kasierer]

Auditors' Report to the Partners of

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Koor Venture Capital

We have audited the accompanying balance sheets of Koor Venture Capital (hereinafter - "the Partnership") as at December 31, 2003 and 2002, the results of its operations, changes in partners' equity and cash flows, for each of the three years, the last of which ended December 31, 2003. These financial statements are the responsibility of the Partnership's partners 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 the affiliate, the investment in which, at equity, amounted to NIS 7,313 thousands and NIS 1,974 thousands as of December 31, 2003 and 2002, respectively, and the Company's equity in it's losses amounted to NIS 329 thousands, NIS 329 thousands and NIS 8,570 thousands for the years ended December 31, 2003, 2002 and 2001, respectively. The financial statements of this company was audited by another auditor, which report has been furnished to us, and our opinion, insofar as it relates to amounts included for this company, is based on the report of the another auditor.

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 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 the report of another auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2003 and 2002 and the results of its operations, changes in partners' equity and its cash flows for each of the three years, the last of which ended December 31, 2003, 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. In these financial statements there is a difference between the two GAAP methods for each reported year. The material differences between Israeli and U.S. GAAP as presented in the financial statements are stated in Note 9 to the financial statements.

As explained in Note 2, the above-mentioned financial statements are stated in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with opinions of the Institute of Certified Public Accountants in Israel.

Tel-Aviv, Israel
March 23, 2004

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

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[Letterhead of Kost Forer Gabbay & Kasierer]

AUDITORS' REPORT

To the shareholders of

KOOR TRADE LTD.

We have audited the accompanying balance sheets of Koor Trade Ltd. ("the Company") as at December 31, 2003 and 2002, and the related statements of operations, changes in shareholder's equity (deficiency) and cash flows for each of the three years in the period ended December 31, 2003 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 companies the investment in which at equity, amounted to NIS 34.1 million and NIS 13.9 million as of December 31, 2003 and 2002, respectively, and the Company's equity in their income (losses) amounted to NIS 5.6 million, NIS 6.5 million and NIS (5.1) million for the years ended December 31, 2003, 2002 and 2001, respectively. Those financial statements which part of them presented in accordance with accounting principles generally stipulated by International Financial Reporting Standards and part of them presented in accordance with accounting principles generally accepted in the United States, were audited by other auditors whose reports as of years ended December 31, 2003 and 2002, have been furnished to us, and our opinion, insofar as it relates to the amounts utilized by Company's management (before reconciliation to accounting principles generally accepted in Israel and in United States) of and for the three years in the period ended December 31, 2003, 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) and with auditing standards generally accepted in Israel. 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 (including the Company's reconciliation of the financial statements of the aforementioned certain subsidiary to accounting principles generally accepted in Israel and in United States) 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and 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, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended of December 31, 2003, 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 11 to the financial statements.

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[Letterhead of Kost Forer Gabbay & Kasierer]

Without qualifying our opinion, we wish to draw attention that the Company has restated its financial statements for the year ended December 31, 2003 and 2002 in order to retroactively reflect the effect of the operating results of an investee whose investment in the financial statements for December 31, 2003 and 2002 did not include its operating results for 2003 and 2002, respectively.

/s/ KOST, FORER GABBAY & KASIERER

Tel-Aviv, Israel
May 28, 2004

KOST, FORER GABBAY & KASIERER
A Member of Ernst & Young Global

F-126

[Letterhead of Brightman Almagor, a Member Firm of Deloitte & Touche]

Independent Auditors' Report

To the Shareholders of
Sheraton Moriah (Israel) Ltd.

We have audited the accompanying balance sheets of Sheraton Moriah (Israel) Ltd. (the "Company") as at December 31, 2003 and 2002, 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, 2003. 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 consolidated by the proportionate consolidation method, whose assets constitute 2% and 5.5% of the total consolidated assets as at December 31, 2003 and 2002 respectively, and whose revenues constitute 12%, 18.1% and 19% of the total consolidated revenues for the years ended December 31, 2003, 2002, and 2001 respectively. The financial statements of those subsidiaries 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, is based solely on the reports of the other auditors. Furthermore, the data included in the financial statements relating to the equity investment of the Company in affiliates and to its share in their operating results is based on the financial statements of such affiliates, some of which were audited by 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

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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 management, as well as evaluating the overall financial statement presentation. We believe that our audits, and the 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 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, 2003 and 2002 and the results of their operations, their changes in shareholders' equity and their cash flows - of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2003, 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. The effect of the application of the latter on the financial position and results of operations as of the December 31, 2003 and for the year 2003 is summarized in Note 28.

As explained in Note 2, the above-mentioned financial statements are stated in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with Opinions of the Institute of Certified Public Accountants in Israel.

As described in Note 6D(1)(b) of the financial statements, there is a disagreement between the shareholders of a proportionately consolidated subsidiary; the implications on the financial statements are also described in that note.

/s/ Brightman Almagor & Co.

/s/ Lion, Orlitzky & Co.

Brightman Almagor & Co.

Lion, Orlitzky & Co.

Certified Public Accountants (Isr.)
A member firm of Deloitte Touche Tomatsu

Certified Public Accountants (Isr.)

Tel Aviv, March 29, 2004

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[Letterhead of Brightman Almagor, a Member Firm of Deloitte & Touche]

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
KNAFAIM - ARKIA HOLDINGS LIMITED

We have audited the accompanying balance sheets of Knafaim - Arkia Holdings Limited ("the Company") as of December 31, 2003 and 2002, and the consolidated balance sheet as of that date, and the related statements of operations, shareholders' equity and cash flows - of the Company and on a consolidated basis - for the years then ended. These financial statements are the responsibility of

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the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

The comparative figures as of December 31, 2001 and for the year then ended were audited by other auditors, who issued an unqualified opinion thereon dated March 18, 2002.

We did not audit the financial statements of subsidiaries whose assets included in consolidation constitute 0.8% and 0.8% of total consolidated assets at December 31, 2003 and 2002, respectively, and whose revenues included in consolidation constitute 7.1% and 9.3% of total consolidated revenues for the years then ended, respectively. We also did not audit the financial statements of affiliates, the investment in which was \$12,223 thousand and \$15,929 thousand at December 31, 2003 and 2002, respectively, and the Company's equity in their losses for the years then ended was \$574 thousand and \$2,021 thousand, respectively. The financial statements of those companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based 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 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 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 the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and on a consolidated basis - as of December 31, 2003 and 2002, and the results of operations, shareholders' equity and cash flows - of the Company and on a consolidated basis - for the years then ended, 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 pertaining to the nature and effect of such differences is presented in an supplementary document dated July 8, 2004.

As described in Note 2A, the Company prepares its primary financial statements in values adjusted for changes in the general purchasing power of Israeli currency as measured by the changes in the US dollar exchange rate in relation to the Israeli shekel, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. The accompanying financial statements are a translation of the primary financial statements into U.S. dollars, as described in Note 2A.

/s/ Brightman Almagor & Co.

Brightman Almagor & Co.
Certified Public Accountants

Tel Aviv, July 8, 2004

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[Letterhead of Kost Forer Gabbay & Kasierer]

REPORT OF INDEPENDENT AUDITORS

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, 2003 and 2002 and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and the consolidated cash flows for each of the two years in the period ended December 31, 2003. 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 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 the Company and its subsidiaries as of December 31, 2003, and 2002 and the consolidated results of their operations and cash flows for each of the two years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles, which differ in certain respects from those followed in Israel, as described in Note 13 to the consolidated financial statements.

/s/ Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
February 4, 2004

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

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[Letterhead of BDO Seidman, LLP]

Independent Auditors' Report

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Telrad Tenecs, Inc.
Woodbury, New York

We have audited the accompanying consolidated balance sheets of Telrad Tenecs, Inc. (formerly Telrad Networks, Inc.) (a wholly-owned subsidiary of Telrad Tenecs Ltd.) and Subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended. These 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 auditing standards generally accepted in the United States of America. 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 also 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 Telrad Tenecs, Inc. at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

January 25, 2002

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[Letterhead of Hoberman, Miller, Goldstein & Lesser, P.C.]

INDEPENDENT AUDITORS' REPORT

To The Stockholder and Board of Directors
Tadiran Electronic Industries, Inc.

We have audited the accompanying consolidated balance sheets of Tadiran Electronic Industries, Inc. and Subsidiary as of December 31, 2003 and 2002, and the consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2003. 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 auditing standards generally accepted in the United States of America. 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

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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 Tadiran Electronic Industries, Inc. and Subsidiary as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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 14 through 17 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 consolidated 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, 2003.

/s/ Hoberman, Miller, Goldstein & Lesser, CPA's, P.C.

January 23, 2004

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[Letterhead of Brightman Almagor, a Member Firm of Deloitte & Touche]

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TADIRAN SPECTRALINK LTD.

We have audited the accompanying balance sheets of Tadiran Spectralink Ltd. ("the Company") as of December 31, 2003 and 2002 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, 2003. 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 examining, on a test basis, evidence supporting the amounts and disclosures in

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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 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, 2003 and 2002, 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, 2003, 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 17 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 15, 2004

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[Letterhead of Brightman Almagor, a Member Firm of Deloitte & Touche]

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TADIRAN ELECTRONIC SYSTEMS LTD.

We have audited the accompanying balance sheets of Tadiran Electronic Systems Ltd ("the Company") as of December 31, 2003 and 2002 and the related statements of operations, changes in shareholders' equity (deficiency) and cash flows for each of the three years, in the period ended December 31, 2003. 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 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 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, 2003 and 2002, and the results of its operations, changes in its

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shareholders' equity (deficiency) and its cash flows for each of the three years, in the period ended December 31, 2003, 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 Almagor & Co.
Certified Public Accountants

Tel Aviv, Israel
February 15, 2004

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[Letterhead of Kost Forer Gabbay & Kasierer]

AUDITORS' REPORT

To the shareholders of

LUXEMBURG PHARMACEUTICAL LTD.

We have audited the accompanying consolidated balance sheet of Luxemburg Pharmaceutical Ltd. ("the Company") and its subsidiaries as at December 31, 2003, and the related statement of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2003 (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) and with auditing standards generally accepted in Israel. 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 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, 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, 2003, and the consolidated results of their operations and its

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cash flows for the year ended December 31, 2003, 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 23 to the consolidated financial statements.

As explained in Note 2, the aforementioned financial statements are stated in dollar adjusted for the changes at the rate of exchange of the dollar, in accordance with opinions of the Institute of Certified Public Accountants in Israel.

/s/ Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 2, 2004

KOST FORER GABBAY and KASIERER
A Member of Ernst & Young Global

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[Letterhead of Kost Forer Gabbay & Kasierer]

AUDITORS' REPORT

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, 2003 and 2002, 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, 2003 (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 16% of total consolidated assets as of December 31, 2003, and whose revenues included in consolidation constitute approximately 35% of total consolidated revenues for the year then ended. Those financial statements, presented in accordance with accounting principles generally accepted in the United Kingdom, were audited by other auditors whose reports as of and for the year ended December 31, 2003, have been furnished to us, and our opinion, insofar as it relates to the amounts utilized by Company's management (before reconciliation to accounting principles generally accepted in Israel) of and for the year ended December 31, 2003, 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) and in Israel. 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 (including the Company's reconciliation of the financial statements of the aforementioned certain subsidiary to accounting principles generally accepted in Israel) and disclosures in the financial statements. An audit also includes assessing the accounting principles used

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and significant estimates made by 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 the reports of other auditors, 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, 2003 and 2002, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2003, 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 21 to the consolidated financial statements.

/s/ Kost, Forer Gabbay and Kasierer

Tel-Aviv, Israel
February 24, 2004

KOST, FORER GABBAY and KASIERER
A Member of Ernst & Young Global

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[Letterhead of Blick Rothenberg]

Independent Auditors' Report
To the Shareholders of Balton CP Limited

We have audited the accompanying consolidated balance sheets of Bolton CP Limited ("the group") at December 1, 2003 and 2001, and the related consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the company's Board of Directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based upon our audit, the aforementioned consolidated financial statements present fairly in all material respects, the financial position of the group as at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Blick Rothenberg

Blick Rothenberg
Chartered Accountants and Registered Auditors
London, England

28 May 2004

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[Letterhead of Goodman Jones]

AUDITORS' REPORT

To the shareholders of

Nutriblend LTD.

We have audited the accompanying balance sheet of Nutriblend Ltd. ("the Company") as of December 31, 2003, and the related statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2003 (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 audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in United Kingdom. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003, and the results of its operations and cash flows for the year ended December 31, 2003, 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 24 to the financial statements.

/s/ Goodman Jones

London
February 24, 2004

Goodman Jones
Chartered Accountants Registered Auditor

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[Letterhead of Kost Forer Gabbay & Kasierer]

REPORT OF INDEPENDENT AUDITORS

To the venturers of the
Joint Venture - Sheraton City Tower

We have audited the balance sheet of the Joint Venture- Sheraton City Tower ("the Joint Venture") as of December 31, 2003 ,and the related statements of operations, changes in venturers' deficiency and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Joint Venture's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides 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, 2003, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles in Israel.

/s/ Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel
March 15, 2004

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

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[Letterhead of Luboshitz Kasierer]

REPORT OF INDEPENDENT AUDITORS

To the venturers of the
Joint Venture - Sheraton City Tower

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We have audited the balance sheet of the Joint Venture- Sheraton City Tower ("the Joint Venture") as of December 31, 2002 ,and the related statements of operations, changes in venturers' deficiency and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Joint Venture's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides 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, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles in Israel.

/s/ Luboshitz Kasierer

Tel-Aviv, Israel
February 6, 2003

LUBOSHITZ KASIERER
A Member of Ernst & Young Global

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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 13th day of July, 2004.

KOOR INDUSTRIES LTD.

By: /s/ Jonathan B. Kolber

Chief Executive Officer