

**Koor Industries Limited**  
**(An Israeli Corporation)**

**Consolidated Interim**  
**Financial Statements**  
**as at March 31, 2007**  
**(Unaudited)**

**Condensed Consolidated Interim Financial Statements as at March 31, 2007**

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**Contents**

	<b>Page</b>
Auditors' Review Report	2
Condensed Consolidated Interim Balance Sheets	3
Condensed Consolidated Interim Statements of Income	4
Condensed Interim Statements of Changes in Shareholders' Equity	5
Condensed Consolidated Statements of Cash Flows	8
Notes to the Interim Financial Statements	12



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## **The Board of Directors** **Koor Industries Limited**

### **Auditors' review report of unaudited condensed consolidated interim financial statements for the three-month period ended March 31, 2007**

At your request, we have reviewed the condensed consolidated interim balance sheet of Koor Industries Limited and its subsidiaries as at March 31, 2007, the related condensed consolidated interim statement of income, the condensed interim statement of changes in shareholders' equity and the condensed consolidated interim statement of cash flows for the three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel, and included, inter alia, reading the said financial statements, reading the minutes of the Shareholders' Meetings and of the meeting of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We were furnished with the reports of other auditors on their review of the interim financial statements of certain subsidiaries whose assets as at March 31, 2007 constitute 8% of the total consolidated assets and whose revenues for the three-month period then ended constitute 29% of the total continuing consolidated revenues and 18% of the total discontinuing consolidated revenues. Furthermore, we were furnished with the reports of other auditors on their review of the interim financial statements of certain affiliates, whose Company's investments constitute NIS 204,292 thousand as at March 31, 2007 and its equity in earnings constitute NIS 8,985 thousand for the three-month period then ended.

Since the review performed was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said condensed consolidated interim financial statements.

In the course of our review, including the reading of the review reports of the other auditors as stated above, nothing came to our attention which would indicate the necessity of making any material modifications to the interim financial statements referred to above, in order for them to be in conformity with generally accepted accounting principles in Israel and in accordance with Section D of the Securities Regulations (Periodic and Immediate Report) - 1970.

We hereby direct attention to that stated in Note 3B(5) regarding a re-examination Makhteshim Agan Industries Ltd. (an affiliate of the Company) is conducting of the facts forming the basis of the accounting treatment relating to issuance of options under an employee share option plan from 2005.

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

May 14, 2007  
Tel Aviv, Israel

## Condensed Consolidated Interim Balance Sheets

	March 31		December 31	Convenience translation (Note 1A3)
	2007	(1) 2006	(2) 2006	March 31
	Unaudited		Audited	2007
	NIS thousands			Unaudited US\$ thousands
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	488,086	48,636	241,586	117,470
Short-term deposits and investments	564,538	722,920	695,931	135,870
Trade receivables	43,191	53,384	33,010	10,395
Other receivables	28,807	53,976	64,521	6,933
Inventories	68,351	87,575	62,319	16,450
	<u>1,192,973</u>	<u>966,491</u>	<u>1,097,367</u>	<u>287,118</u>
<b>Investments and long-term receivables</b>				
Investments in affiliates	3,377,654	2,803,935	3,322,177	812,913
Other investments and receivables	165,331	535,611	179,488	39,791
	<u>3,542,985</u>	<u>3,339,546</u>	<u>3,501,665</u>	<u>852,704</u>
<b>Investment property</b>	<u>108,280</u>	* 81,016	* 80,080	<u>26,060</u>
<b>Fixed assets, net</b>	<u>8,764</u>	* 10,497	* 9,528	<u>2,109</u>
<b>Intangible assets, deferred tax assets and deferred expenses</b>	<u>3,760</u>	16,538	546	<u>905</u>
<b>Assets relating to discontinued operations</b>	<u>808,349</u>	1,090,153	814,645	<u>194,548</u>
	<u><u>5,665,111</u></u>	<u>5,504,241</u>	<u>5,503,831</u>	<u><u>1,363,444</u></u>

\* Reclassified.

(1) Reclassified with respect to discontinued operations (see Note 6(2) and Note 6(3)).

(2) Reclassified with respect to discontinued operations (see Note 6(3)).

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

	March 31		December 31	Convenience translation (Note 1A3)
	2007	(1) 2006	(2) 2006	March 31
	Unaudited		Audited	2007
	NIS thousands			Unaudited
				US\$ thousands
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities</b>				
Credit from banks and others	33,240	239,601	33,800	8,000
Trade payables	47,777	51,349	40,473	11,499
Other payables	183,004	149,542	161,228	44,044
Customer advances	3,303	1,544	1,779	795
	<u>267,324</u>	<u>442,036</u>	<u>237,280</u>	<u>64,338</u>
<b>Long-term liabilities</b>				
Long-term bank loans	1,328,760	1,004,415	1,299,174	319,798
Other long-term loans	13,867	53,545	47,467	3,337
Debentures	988,030	392,383	988,482	237,793
Deferred taxes	715	93	34	172
Liability for employee severance benefits, net	2,068	40	2,137	498
	<u>2,333,440</u>	<u>1,450,476</u>	<u>2,337,294</u>	<u>561,598</u>
<b>Liabilities relating to discontinued operations</b>	<u>742,826</u>	<u>994,938</u>	<u>737,721</u>	<u>178,779</u>
<b>Minority interest</b>	<u>2,054</u>	<u>1,560</u>	<u>2,348</u>	<u>494</u>
<b>Shareholders' equity</b>	<u>2,319,467</u>	<u>2,615,231</u>	<u>2,189,188</u>	<u>558,235</u>
	<u><u>5,665,111</u></u>	<u><u>5,504,241</u></u>	<u><u>5,503,831</u></u>	<u><u>1,363,444</u></u>

Jonathan Kolber  
Chairman of the Board of  
Directors

Raanan Cohen  
Chief Executive Officer

Michal Yageel  
Corporate Controller

May 14, 2007

Condensed Consolidated Interim Statements of Income

	Three months ended March 31		Year ended	Convenience translation
	2007	(1) 2006	December 31	(Note 1A3)
	Unaudited		(2) 2006	Three months ended
	NIS thousands		Audited	March 31
				2007
				Unaudited
				US\$ thousands
<b>Revenues and earnings</b>				
Revenue from sales and services	53,618	77,099	270,452	12,904
Group's equity in the operating results of investee companies, net	112,880	64,311	(37,555)	27,167
Other income, net	33,610	4,502	99,492	8,089
	<u>200,108</u>	<u>145,912</u>	<u>332,389</u>	<u>48,160</u>
<b>Costs and losses</b>				
Cost of sales and services	41,025	54,449	210,097	9,874
Selling and marketing expenses	11,683	12,605	47,315	2,812
General and administrative expenses	12,983	15,718	87,514	3,124
Financing expenses, net	8,136	13,910	97,480	1,958
	<u>73,827</u>	<u>96,682</u>	<u>442,406</u>	<u>17,768</u>
<b>Earnings before income tax</b>	<u>126,281</u>	<u>49,230</u>	<u>(110,017)</u>	<u>30,392</u>
Income tax	485	40	(4,671)	117
	<u>126,766</u>	<u>49,270</u>	<u>(114,688)</u>	<u>30,509</u>
Minority interest in consolidated companies' results, net	336	(1,969)	(2,430)	81
<b>Net earnings (loss) from continuing operations</b>	<u>127,102</u>	<u>47,301</u>	<u>(117,118)</u>	<u>30,590</u>
<b>Net earnings (loss) from discontinued operations (Note 6)</b>	<u>(3,323)</u>	<u>(7,991)</u>	<u>13,918</u>	<u>(800)</u>
<b>Cumulative effect as of the beginning of the year of change in accounting method</b>	-	62,552	62,552	-
<b>Net earnings (loss) for the period</b>	<u>123,779</u>	<u>101,862</u>	<u>(40,648)</u>	<u>29,790</u>
	NIS	NIS	NIS	US\$
<b>Basic earnings (loss) per ordinary share:</b>				
From continuing operations	7,544	2,757	(6,623)	1,816
From discontinued operations	(0,201)	(0,492)	0,849	(0,049)
From cumulative effect of change in accounting method	-	3,852	3,815	-
Net (loss) earnings for the period	<u>7,343</u>	<u>6,117</u>	<u>(1,959)</u>	<u>1,767</u>
<b>Diluted earnings (loss) per ordinary share:</b>				
From continuing operations	7,440	2,698	(7,161)	1,791
From discontinued operations	(0,200)	(0,481)	0,849	(0,049)
From cumulative effect of change in accounting method	-	3,768	3,815	-
Net earnings (loss) for the period	<u>7,240</u>	<u>5,985</u>	<u>(2,497)</u>	<u>1,742</u>

- (1) Reclassified with respect to discontinued operations (see Note 6(2) and Note 6(3)).  
(2) Reclassified with respect to discontinued operations (see Note 6(3)).

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

**Condensed Interim Statement of Changes in Shareholders' Equity**

	Number of ordinary shares <sup>(1)</sup>	Share capital	Capital reserves	Amounts received in respect of stock options	Company shares held by the company and subsidiaries  NIS thousands	Cumulative foreign currency translation adjustments	Retained earnings (deficit)	Total Shareholders' equity
<b>Balance as at January 1, 2007 (Audited)</b>	16,567,070	564,515	2,566,724	21,715	(6,071)	(233,851)	(723,844)	2,189,188
<b>Changes during the three months ended March 31, 2007 (Unaudited):</b>								
Net earnings for the period	-	-	-	-	-	-	123,779	123,779
Adjustment to retained earnings in respect of investment properties (see Note 1B(4))	-	-	-	-	-	-	52,246	52,246
Adjustment to retained earnings in respect of in- process research and development (see Note 1B(5))	-	-	-	-	-	-	1,728	1,728
Stock-based compensation expenses	-	-	52	-	-	-	-	52
Exercise of stock options granted to employees	3,555	-	-	-	-	-	-	-
Cumulative foreign currency translation adjustments	-	-	-	-	-	(47,526)	-	(47,526)
<b>Balance as at March 31, 2007 (Unaudited)</b>	<b>16,570,625</b>	<b>564,515</b>	<b>2,566,776</b>	<b>21,715</b>	<b>(6,071)</b>	<b>(281,377)</b>	<b>(546,091)</b>	<b>2,319,467</b>
	Number of ordinary shares <sup>(1)</sup>	Share capital	Capital reserves	Amounts received in respect of stock options	Company shares held by the company and subsidiaries  NIS thousands	Cumulative foreign currency translation adjustments	Retained earnings (deficit)	Total Shareholders' equity
<b>Balance as at January 1, 2006 (Audited)</b>	16,146,668	564,515	2,565,488	21,715	(6,071)	15,983	(683,196)	2,478,434
<b>Changes during the three months ended March 31, 2006 (Unaudited):</b>								
Net earnings for the period	-	-	-	-	-	-	101,862	101,862
Stock-based compensation expenses	-	-	347	-	-	-	-	347
Exercise of stock options granted to employees	93,633	-	-	-	-	-	-	-
Cumulative foreign currency translation adjustments	-	-	-	-	-	34,588	-	34,588
<b>Balance as at March 31, 2006 (Unaudited)</b>	<b>16,240,301</b>	<b>564,515</b>	<b>2,565,835</b>	<b>21,715</b>	<b>(6,071)</b>	<b>50,571</b>	<b>(581,334)</b>	<b>2,615,231</b>

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

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

**Condensed Interim Statement of Changes in Shareholders' Equity (cont'd)**

	Number of ordinary shares <sup>(1)</sup>	Share capital	Capital reserves	Amounts received in respect of stock options	Company shares held by the company and subsidiaries NIS thousands	Cumulative foreign currency translation adjustments	Retained earnings (deficit)	Total Shareholders' equity
<b>Balance as at January 1, 2006 (Audited)</b>	16,146,668	564,515	2,565,488	21,715	(6,071)	15,983	(683,196)	2,478,434
<b>Changes during 2006 (Audited):</b>								
Net earnings for the year	-	-	-	-	-	-	(40,648)	(40,648)
Stock-based compensation expenses	-	-	1,236	-	-	-	-	1,236
Issuance of stock options								
Exercise of stock options granted to employees	420,402	-	-	-	-	-	-	-
Cumulative foreign currency translation adjustments, net	-	-	-	-	-	(249,834)	-	(249,834)
<b>Balance as at December 31, 2006 (Audited)</b>	<b>16,567,070</b>	<b>564,515</b>	<b>2,566,724</b>	<b>21,715</b>	<b>(6,071)</b>	<b>(233,851)</b>	<b>(723,844)</b>	<b>2,189,188</b>

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

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

**Condensed Interim Statement of Changes in Shareholders' Equity (cont'd)**

Convenience translation into U.S. dollars (Note 1A(3))

	Share capital	Capital reserves	Company shares held by the Company subsidiaries	Cumulative foreign currency translation adjustments US\$ thousands	Amounts received in respect of stock options	Retained earnings (deficit)	Total Shareholders' equity
<b>Balance as at January 1, 2007 (Audited)</b>	135,864	617,743	5,226	(1,461)	(56,282)	(174,210)	526,880
<b>Changes during the three months ended March 31, 2007 (Unaudited):</b>							
Net earnings for the period	-	-	-	-	-	29,790	29,790
Adjustment to retained earnings in respect of investment properties	-	-	-	-	-	12,574	12,574
Adjustment to retained earnings in respect of in-process research and development	-	-	-	-	-	416	416
Stock-based compensation expenses	-	13	-	-	-	-	13
Cumulative foreign currency translation adjustments	-	-	-	-	(11,438)	-	(11,438)
<b>Balance as at March 31, 2007 (Unaudited)</b>	<b>135,864</b>	<b>617,756</b>	<b>5,226</b>	<b>(1,461)</b>	<b>(67,720)</b>	<b>(131,430)</b>	<b>558,235</b>

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

**Condensed Consolidated Interim Statements of Cash Flows**

	Three months ended March 31		Year ended	Convenience translation (Note 1A3)
	2007	(1) 2006	December 31	Three months ended
	Unaudited		(2) 2006	March 31
	NIS thousands		Audited	Unaudited
				US\$ thousands
<b>Cash flows generated by operating activities</b>				
Net earnings (loss) for the year	123,779	101,862	(40,648)	29,790
Adjustments to reconcile net earnings (loss) to net cash flows generated by operating activities (A)	(135,294)	(109,367)	16,273	(32,562)
Net cash outflow generated by continuing operating activities	(11,515)	(7,505)	(24,375)	(2,772)
Net cash inflow generated by discontinued operating activities	9,006	12,261	31,556	2,168
<b>Net cash flows from operating activities</b>	<b>(2,509)</b>	<b>4,756</b>	<b>7,181</b>	<b>(604)</b>
<b>Cash flows generated by investing activities:</b>				
Purchase of fixed assets	(458)	(248)	(3,934)	(110)
Amounts charged to intangible assets and deferred expenses	(3,364)	(925)	-	(810)
Proceeds from disposal of investments in investee companies and others	186,593	-	182,161	44,908
Investment in affiliate	(520)	(16,478)	(923,965)	(125)
Proceeds from sale of fixed assets and intangible assets	-	51	910	-
Investment in venture capital companies	(3,562)	(984)	(7,417)	(857)
Decrease (increase) in other investments, net	-	(14,545)	1,649	-
Decrease (increase) in short-term deposits and investments, net	79,444	(178,439)	1,708	19,120
Net cash inflow (outflow) generated by continuing investing activities	258,133	(211,568)	(748,888)	62,126
Net cash outflow generated by discontinued investing activities	(2,870)	(60,615)	(79,274)	(691)
<b>Net cash flows from investing activities</b>	<b>255,263</b>	<b>(272,183)</b>	<b>(828,162)</b>	<b>61,435</b>

(1) Reclassified with respect to discontinued operations (see Note 6(2) and Note 6(3)).

(2) Reclassified with respect to discontinued operations (see Note 6(3)).

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

**Condensed Consolidated Interim Statements of Cash Flows (cont'd)**

	Three months ended March 31		Year ended	Convenience translation (Note 1A3)
			December 31	Three months ended
	2007	(1) 2006	(2) 2006	March 31
	Unaudited		Audited	Unaudited
NIS thousands				US\$ thousands
<b>Cash flows generated by financing activities</b>				
Proceeds from issuance of debentures	-	-	593,988	-
Issuance of shares to minority interest in subsidiaries	-	(377)	-	-
Acquisition of stock options by subsidiary	(76)	-	(1,138)	(18)
Dividend paid to minority interest in subsidiaries	-	(182)	-	-
Receipt of long-term loans and other long-term liabilities	-	-	142,363	-
Repayment of long-term loans, debentures and other long-term liabilities	-	-	(53,081)	-
Decrease in credit from banks and others, net	-	(7,247)	(2,835)	-
Net cash inflow (outflow) generated by continuing financing activities	(76)	(7,806)	679,297	(18)
Net cash inflow (outflow) generated by discontinued financing activities	(5,647)	49,991	47,643	(1,359)
<b>Net cash flows from financing activities</b>	<b>(5,723)</b>	<b>42,185</b>	<b>726,940</b>	<b>(1,377)</b>
<b>Translation differences in respect of cash balances of foreign subsidiaries in continuing operations</b>	<b>(42)</b>	<b>336</b>	<b>(657)</b>	<b>(10)</b>
<b>Translation differences in respect of cash balances of foreign subsidiaries in discontinued operations</b>	<b>-</b>	<b>1,213</b>	<b>74</b>	<b>-</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>246,989</b>	<b>(223,693)</b>	<b>(94,624)</b>	<b>59,444</b>
<b>Increase (decrease) in cash and cash equivalents from discontinued operations</b>	<b>(489)</b>	<b>(11,432)</b>	<b>52,449</b>	<b>(118)</b>
<b>Increase (decrease) in cash and cash equivalents from continuing operations</b>	<b>246,500</b>	<b>(235,125)</b>	<b>(42,175)</b>	<b>59,326</b>
<b>Balance of cash and cash equivalents at beginning of period</b>	<b>241,586</b>	<b>283,761</b>	<b>283,761</b>	<b>58,144</b>
<b>Balance of cash and cash equivalents at end of period</b>	<b>488,086</b>	<b>48,636</b>	<b>241,586</b>	<b>117,470</b>

(1) Reclassified with respect to discontinued operations (see Note 6(2) and Note 6(3)).

(2) Reclassified with respect to discontinued operations (see Note 6(3)).

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

**Condensed Consolidated Interim Statements of Cash Flows (cont'd)**

	Three months ended March 31		Year ended	Convenience translation
			December 31	(Note 1A3)
				Three months ended
	2007	(1) 2006	(2) 2006	March 31
Unaudited		Audited	Unaudited	
NIS thousands				US\$ thousands
<b>A. Adjustments to reconcile net earnings to net cash flows generated by operating activities:</b>				
Income and expenses not involving cash flows:				
Cumulative effect as of the beginning of the year of change in accounting method	-	(62,552)	(62,552)	-
Losses (earnings) from discontinued operations	3,323	7,991	(13,918)	800
Minority interest in results of subsidiaries, net	(336)	1,969	2,430	(80)
Group's equity in operating results of investee companies, net	(111,184)	(43,509)	139,450	(26,759)
Depreciation and amortization	1,118	2,418	5,403	269
Deferred taxes, net	670	(988)	13,869	161
Increase (decrease) in liabilities in respect of employee severance benefits, net	(69)	42	2,097	(17)
Amortization of stock based compensation	227	347	1,633	55
Net capital losses (gains) from realization of:				
Fixed assets and intangible assets	2	(23)	339	-
Investments in affiliates	(23,829)	-	-	(5,735)
Investments in investee companies	(9,922)	-	(79,308)	(2,388)
Linkage of debentures and amortization of bond discount	(452)	(1,529)	23,765	(109)
Inflationary erosion (linkage) of principal of long-term loans and other liabilities	(3,734)	4,219	(25,545)	(899)
Inflationary erosion (linkage) of value of investments, deposits and loans receivable	3,788	(7,095)	(8,350)	912
Impairment (reversal) in value of assets and investments (primarily venture capital investments)	-	1,646	(1,504)	-
	<b>(140,398)</b>	<b>(97,064)</b>	<b>(2,191)</b>	<b>(33,790)</b>
Changes in operating asset and liability items:				
Decrease (increase) in trade receivables and other receivables (after taking into account non-current receivables)	(20,234)	(26,970)	15,782	(4,870)
Decrease (increase) in inventories (including long-term customer advances and deposits)	(5,573)	2,946	18,035	(1,341)
Increase (decrease) in trade payables and other payables	30,911	11,721	(15,353)	7,439
	<b>5,104</b>	<b>(12,303)</b>	<b>18,464</b>	<b>1,228</b>
	<b>(135,294)</b>	<b>(109,367)</b>	<b>16,273</b>	<b>(32,562)</b>

(1) Reclassified with respect to discontinued operations (see Note 6(2) and Note 6(3)).

(2) Reclassified with respect to discontinued operations (see Note 6(3)).

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

**Condensed Consolidated Interim Statements of Cash Flows (cont'd)**

	Three months ended March 31		Year ended	Convenience translation
	2007	(1) 2006	December 31	(Note 1A3)
	Unaudited		(2) 2006	Three months ended
	NIS thousands		Audited	March 31
				Unaudited
				US\$ thousands
<b>B. Non-cash transactions:</b>				
Sale of venture capital investments, net	-	-	56,159	-
Dividend in kind from affiliated company	-	-	10,470	-

- (1) Reclassified with respect to discontinued operations (see Note 6(2) and Note 6(3)).  
(2) Reclassified with respect to discontinued operations (see Note 6(3)).

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

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 1 - Significant Accounting Policies**

**A. General**

1. These financial statements were prepared in conformity with generally accepted accounting principles applicable to the preparation of interim financial statements, in accordance with Accounting Standard No. 14 of the Israel Accounting Standards Board ("IASB") and with Article 4 of the Securities Regulation (Immediate and Periodic Reports) - 1970.
2. These financial statements were prepared as at March 31, 2007 and for the three-month period then ended. These financial statements should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2006 ("the annual financial statements").
3. The adjusted interim financial statements as at March 31, 2007, and for the three months then ended have been translated into U.S. dollars using the representative exchange rate at that date (\$1=NIS 4.155). The translation was made solely for the convenience of the reader. The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated in these financial statements.
4. The significant accounting policies were applied in the interim financial statements in a manner consistent with the financial statements at December 31, 2006, except as mentioned in Note 1B below.

**B. Initial application of new accounting standards**

**1. Accounting Standard No. 27, "Fixed Assets"**

As from January 1, 2007 the Company implements Accounting Standard No. 27, "Fixed Assets" (hereinafter – the Standard). The Standard prescribes rules for the presentation, measurement and disposition of fixed assets and for the disclosure required in respect thereto. The Standard stipulates, inter alia, that upon the initial recognition of a fixed asset, the entity shall include in the cost of the item all the costs it will incur in respect of a liability to dismantle and remove the item and to restore the site on which it was located. Furthermore, the Standard stipulates that a group of similar fixed asset items shall be measured at cost net of accumulated depreciation, and less impairment losses, or alternatively, at its revalued amount less accumulated depreciation, whereas an increase in the value of the asset to above its initial cost as a result of the revaluation will be directly included the shareholders' equity under a revaluation reserve. Any part of a fixed asset item with a cost that is significant in relation to the total cost of the item shall be depreciated separately, including the costs of significant periodic examinations. The Standard also stipulates that a fixed asset that was purchased in consideration for another non-monetary item in a transaction of commercial substance shall be measured at fair value.

The Standard also requires entities to review the residual value, useful life and depreciation method of the asset at least at the end of each fiscal year, and if the expectations differ from the prior estimates the changes are to be treated as a change in accounting estimate.

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

Application of the new Standard did not have a material impact on the Company's results of operations and its financial position.

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 1 - Significant Accounting Policies (cont'd)**

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

**2. Accounting Standard No. 26, "Inventory"**

As from January 1, 2007 the Company implements Accounting Standard No. 26, "Inventory" (hereinafter – the Standard). The Standard stipulates guidelines for determining the cost of inventory and its subsequent recognition as an expense as well as for determining impairment in value of inventory to its net realizable value. According to the Standard, inventory should be presented according to the lower of cost or net realizable value. The Standard also provides guidelines regarding cost allocation of conversion costs to inventory.

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

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

**3. Accounting Standard No. 23, "Accounting for Transactions Between an Entity and its Controlling Shareholder"**

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

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

Pursuant to the Standard's transitional provisions, the Company applies the Standard to transactions with controlling interests therein executed after January 1, 2007, as well as to loans granted or received from the controlling interest prior to the Standard's commencement date, beginning from its commencement date.

Application of the new Standard did not have a material impact on the Company's results of operations and its financial position.

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 1 - Significant Accounting Policies (cont'd)**

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

**4. Accounting Standard No. 16, "Investment Property"**

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

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

The Company elected to apply the fair value model for measuring its investment property. Therefore, in accordance with the transition requirements of the Standard, on January 1, 2007 the Company recorded an increase in the balance of its investment property in the amount of NIS 20 million. Furthermore, the Company recorded an increase in its investments in affiliates in the amount of NIS 32 million. The Company recorded an adjustment to the opening balance of retained earnings of NIS 52 million in respect of the above.

The Company recognizes a liability in respect of property sales tax upon occurrence of an event that gives rise to such a liability, therefore the financial statements do not include a liability for property sales tax in respect of its investment property. The Company estimates that in the event that it were to sell all of its investment property at prices equivalent to the fair value of the investment property as of the balance sheet date, the impact of the liability on the Company's financial statements, taking into account taxes, minority interest and the Company's equity in affiliated companies, would amount to approximately NIS 4 million.

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

As from January 1, 2007, the Company implements Accounting Standard No. 30, "Intangible Assets" (hereinafter – the Standard) of the IASB. The Standard prescribes the accounting treatment for intangible assets and defines how to measure the book value of these assets, and provides the disclosure requirements.

In accordance with the Standard's transition rules, the Standard shall be applied retroactively, except as set forth hereinafter. With regard to business acquisitions, the Standard shall be applied to business acquisitions that take place from January 1, 2007 and thereafter, whereas with regard to in-process research and development projects acquired within the framework of a business acquisition that occurred prior to January 1, 2007 and that meets the definition of an intangible asset on the acquisition date and that was recorded as an expense on the acquisition date, on January 1, 2007 the acquiring company shall recognize the in-process research and development project as an asset, as well as applicable deferred taxes. The in-process research and development asset shall be recorded at the amount estimated on the acquisition date, less the amortization that would have accrued from the acquisition date until December 31, 2006 according to the useful life of the asset and less impairment losses. This amount shall be recorded as an adjustment to the opening balance of retained earnings as of January 1, 2007.

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 1 - Significant Accounting Policies (cont'd)**

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

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

The Company recorded an expense of NIS 2,443 thousand in respect of in-process research and development projects acquired within the framework of a business acquisition that occurred prior to January 1, 2007. The projects meet the definition of an intangible asset on the acquisition date and therefore on January 1, 2007 the Company recognized the in-process research and development projects as assets in the amount of NIS 1,728 thousand (after recognition of applicable deferred taxes) against an adjustment to the opening balance of retained earnings as of January 1, 2007.

As from January 1, 2007 certain of the Company's investees examine the criteria for recognition of intangible assets in respect of development activities. Such investees did not recognize intangible assets in respect of past development activities as such investees did not examine the criteria or document them in prior periods.

**Note 2 - Rates of Change in the Consumer Price Index and Foreign Currency Exchange Rates**

Below are the rates of change that occurred in the Consumer Price Index and in the exchange rates of the U.S. Dollar during the reporting periods:

	<u>Israeli CPI Points</u>	<u>Exchange rate of one Dollar NIS</u>
At March 31, 2007	<b>184.43</b>	<b>4.155</b>
At March 31, 2006	186.12	4.665
At December 31, 2006	184.87	4.225
	<u>Change in %</u>	<u>Change in %</u>
For the three months ended March 31, 2007	<b>(0.24)</b>	<b>(1.66)</b>
For the three months ended March 31, 2006	0.58	1.35
For the year ended December 31, 2006	(0.10)	(8.21)

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 3 - Information Regarding Certain Investees**

**A. ECI Telecom Ltd. ("ECI") – an affiliate**

1. During the first quarter of 2007, as ECI's affiliated company Veraz Networks Inc. ("Veraz"), made significant progress towards completion of its initial public offering, ECI's management determined that it is more likely than not that a portion of ECI's capital loss carryforwards for tax purposes will be utilized against capital gains that ECI will generate from the future sale of its shares in Veraz. As a result, ECI released part of its deferred tax asset valuation allowance and recognized an income tax benefit in the amount of \$ 12.5 million.
2. On April 4, 2007, an S-I Registration Statement filed with the SEC by Veraz in connection with an initial public offering was declared effective and Veraz raised gross proceeds of \$ 54 million, before underwriting discounts and expenses, from the sale of 6.75 million shares at the public offering price of \$8 per share. In addition, ECI sold in the offering 2.25 million shares of Veraz for a total gross consideration of \$18 million. Following the offering, ECI's holding in Veraz were reduced to 27.6% (on a non-diluted basis).
3. In January 2005, ECI was named one of the defendants in a purported class action complaint filed in the United States against ECtel, certain directors and officers of ECtel, and against ECI. The complaint alleged violations of U.S. Federal Securities laws by ECtel and breach of fiduciary duties by the individual defendants, in connection with disclosure of ECtel's financial results, between April 2001 and April 2003. It also alleged that ECI was the controlling shareholder of ECtel during this period and, as such, influenced and controlled the purported actions by its subsidiary. Damages claimed by the plaintiff were not quantified. In July 2006, the United States District Court for the District of Maryland granted ECI's and ECtel's motions to dismiss the securities class action lawsuit.

In August 2006, the plaintiff filed a motion for reconsideration, alleging new evidence against ECtel, which was denied in March 2007. The plaintiff has appealed the dismissal.

ECI's management, based on the opinion of its legal advisors, believes that the allegations made in the complaint with respect to it are without merit, therefore no provision has been recorded in the financial statements in respect thereof.

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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

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

4. ECI prepares its financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). Below is the adjustment of the net earnings of ECI as reported in accordance with U.S. GAAP to net earnings in accordance with Israeli GAAP:

	Three months ended March 31		For the year ended
	2007	2006	December 31
	US\$ thousands (Unaudited)	US\$ thousands (Unaudited)	US\$ thousands (Audited)
Net earnings of ECI as reported in conformity with U.S. GAAP	18,713	3,062	22,095
<u>Adjustments:</u>			
Capitalization of development costs	6,029	-	-
Share-based payments expenses	(1,181)	628	786
Financing income (expenses) from derivative financial statements	(521)	(4,382)	(5,745)
Amortization and realization of excess cost allocated to intangible assets	20	47	55
Loss (gain) on marketable securities	52	(130)	19
ECI's equity in results of affiliate	-	*(320)	(1,704)
Distribution of available-for-sale securities as dividend-in-kind	-	-	(4,075)
Cumulative effect as of the beginning of the year of change in accounting method	-	* 1,704	1,704
Net earnings of ECI in conformity with Israeli GAAP	<u>23,112</u>	<u>609</u>	<u>13,135</u>

\* Restated.

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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

**B. Makhteshim Agan Industries Ltd. ("M-A Industries") – an affiliate**

1. Under the terms of the securitization agreement of M-A Industries and its subsidiaries from September 2004, to sell customer receivables to financial institutions, the balance of trade receivables sold for cash as at the balance sheet date amounted to approximately \$234.7 million (March 31, 2006 – \$202.1 million; December 31, 2006 – \$ 175.8 million).

The maximum amount of financial resources expected to be made available to the purchasing companies to purchase the trade receivables of the subsidiaries is approximately \$275 million, on a current basis, so that the proceeds received from the customers whose receivables had been sold will be used to purchase new trade receivables.

2. M-A Industries and its subsidiary in Brazil (Milenia) undertook, if certain conditions are met, to indemnify financial institutions for credit received by customers of Milenia from those financial institutions, and which was used to repay the debts of these customers to Milenia from its sales to these customers.  
The indemnification amount as at the balance sheet date is \$51.3 million (December 31, 2006 – \$65 million).

3. During the first quarter of 2007, NIS 19,030 thousand par value of debentures (Series A) of M-A Industries were converted into 2,091 thousand ordinary shares, NIS 1 par value, of M-A Industries.

4. Seasonality

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

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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

**B. Makhteshim Agan Industries Ltd. ("M-A Industries") – an affiliate (cont'd)**

(5) Accounting treatment of options granted under the M-A Industries' 2005 option plan

On March 13, 2005, M-A Industries' Board of Directors approved an employee share option plan, an immediate report and related description in respect of which was published on March 14, 2005. Relying on the transitional rules of Accounting Standard 24, "Share-Based Payments", M-A Industries did not apply that Standard to the grants made under the option plan, and did not record an expense in respect thereof, pursuant to the Standard's transitional rules which provide that the Standard applies to grants after March 15, 2005, and which had not vested prior to January 1, 2006.

In connection with review of the draft prospectus submitted by M-A Industries for listing of bonds it issued, and following a meeting with the staff of the Israeli Securities Authority on May 8, 2007, questions arose regarding the factual circumstances leading to removal of the grants from application of the aforesaid Standard.

Had Standard 24 been applied to all of the grants made under the 2005 option plan, M-A Industries estimates the maximum additional expense that would have been recorded in respect thereof at the sum of approximately \$6 million in 2005, approximately \$8 million in 2006 (approximately \$2 million per quarter) and approximately \$2 million in the first quarter of 2007.

M-A Industries' Board of Directors has decided to re-examine the facts on the basis of which the grants were treated for accounting purposes, under the supervision of M-A Industries' Audit Committee. If the outcome of the examination indicates that M-A Industries should have applied the Standard to the aforesaid grants, or part thereof, and taking into account the materiality of this matter, M-A Industries may restate its financial statements for the years 2005 and 2006 and for the first quarter of 2007, by the maximum amounts stated above.

In the event that M-A Industries shall restate its financial statements as described above, the Company's share in the maximum additional expenses to be recorded by M-A Industries will amount to approximately \$1.9 million, \$2.8 million and \$0.8 million in respect of the years ended December 31, 2005 and 2006 and for the first quarter of 2007, respectively and the Company may restate its financial statements accordingly.

**C. Koor Corporate Venture Capital – a consolidated partnership**

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

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 4 - Contingent Liabilities and Commitments**

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

On March 10, 2005, the Company and the other defendants submitted to the District Court their clarified objection to the request of the plaintiff to certify the claim as a class action. On December 5, 2005 the Plaintiff filed his response to the said objection.

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

Further to the sale of shares of Telrad Networks, Koor committed to indemnify the purchasers in the event that a court ruling will increase the amount of expenses to be paid by Telrad Networks to an amount exceeding that stated in the share purchase agreement.

- B.** On February 20, 2007 a suit was filed with the Tel Aviv District Court against the Company and several directors and officers of the Company and of United Steel Mills Ltd. (in liquidation) ("Steel Mills"), a former subsidiary of the Company, and various other parties. A motion for recognition of the suit as a class action was filed together with the suit.

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

In the Statement of Claim, the plaintiff alleges that the defendants are responsible for false representations made by Koor and Steel Mills in quarterly financial reports and relevant immediate reports. The plaintiff claims that on the basis of these representations, he purchased bonds of Steel Mills on December 28, 1999, and that these representations imply that Koor is committed to repay the bonds.

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

The Company's directors' and officers' insurance carrier has been informed of the matter. Due to the preliminary stage of the proceedings, the Company is unable to assess the chances of the claim and the request for recognition as a class action, therefore no provision has been made in the financial statements in respect of this matter.

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 5 - Events Subsequent to the Balance Sheet Date**

1. On April 26, 2007 the Company completed the sale of its entire 56.5% shareholding in Sheraton Moriah Israel Ltd. ("Sheraton") to Azorim Tourism Ltd. for total consideration of approximately \$24.0 million.

The first installment in the amount of \$6.3 million was received on December 21, 2006, the second in the amount of approximately \$8.6 million was received on the date of the closing. The remaining amount of \$9.1 million, guaranteed by Azorim, will be received no later than March 27, 2008, as follows: (a) One half of the said amount shall be paid in NIS (in accordance with the last representative dollar exchange rate known on the date of payment); and (b) The other half shall be paid in NIS (in accordance with the representative dollar exchange rate known on the date of execution of the agreement), linked to the rate of change of the Israeli Consumer Price Index (CPI) known on March 27, 2008 relative to the CPI known on the date of execution of the agreement (Basic Index), and such that the said amount shall, in no event, be lower than the amount calculated according to the Basic Index. Following the closing of the transaction the Company was released from guaranties provided to banks to secure bank debt of Sheraton Moriah in the amount of approximately \$9.2 million. The Company will record a gain as a result of the transaction of approximately NIS 14 million in the second quarter of 2007.

Pursuant to the sale, Sheraton has been presented as a discontinued operation. See Note 6(3).

2. On May 8, 2007 the Company signed an agreement to sell 4.96% of Knafaim Holdings Ltd. ("Knafaim"). The shares will be sold at a price per share of \$10.47 ("purchase price"), for total consideration of approximately \$7.4 million. \$1.5 million was paid upon signing and the remainder will be paid upon the closing of the transaction.

The closing is currently expected to take place by the end of the third quarter of 2007. However, the closing of the transaction is subject to the approval of Israel's antitrust commissioner, and, at this stage, there is no certainty that the transaction will be completed.

Furthermore, the purchaser was granted an option to notify the Company, for a period of 30 days, that it requests to purchase the balance, or part thereof, of the Company's shareholding in Knafaim, representing approximately 4.2% of Knafaim's share capital at the purchase price.

In the event the purchaser will not exercise the aforementioned option, the purchaser will have a call option to purchase all or part of the balance of the Company's shareholding in Knafaim for a period of 16 months following the closing, at a price per share of \$13.96. Furthermore, the Company will have a put option to sell all or part of the balance of its shareholding to the purchaser, for a period of 6 months commencing 18 months after the closing, at a price per share of \$10.47 plus interest from the date of the closing.

Under the agreement, should the purchaser sell the shares purchased at the closing date, to any third party, during a period of 12 months commencing from the closing date, at a price per share higher than the purchase price, the purchaser will pay the Company additional consideration in the amount of the difference between the sale price and the purchase price, net of interest accrued, for each share sold.

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 5 - Events Subsequent to the Balance Sheet Date (cont'd)**

3. On May 10, 2007, pursuant to completion of an offering to institutional investors in Israel the Company issued debentures with a par value of approximately NIS 595 million, for consideration of approximately NIS 640 million, implying an effective interest rate of 4.05%, linked to the Israeli CPI. The debentures will be considered part of the Series H debentures issued on August 20, 2006 by the Company to the public in Israel pursuant to the prospectus dated August 13, 2006 and the terms of the debentures are identical to the terms of the Series H debentures issued under the prospectus. The debentures are linked to the Israeli CPI and bear annual interest of 5.1%. The debentures will be repaid in five equal installments on September 1 of each year from 2012 through 2016. The interest is payable on the outstanding balance of the debentures, on September 1 of each year from 2007 through 2016.

The debenture issue is subject to receipt of the approval for the listing of the debentures for trading on the Tel-Aviv Stock Exchange. The sale of the debentures by the institutional investors will be subject to lock-up arrangements provided under the Israeli Securities Law, 1968 and its regulations.

The debentures have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to U.S. persons, absent registration or an applicable exemption from registration requirements.

**Note 6 - Discontinued Operations**

**1. Koor Trade Ltd.**

On April 25, 2006, the Company signed an agreement for the sale of its entire holdings in Koor Trade, including shareholder loans, to a group of managers, including one of the Company's senior executives, for \$ 8.3 million. The transaction was completed in the second quarter of 2006, and the entire cash proceeds of \$8.3 million were received.

In the event that the buyers sell their holding in Koor Trade or a certain affiliated company of Koor Trade during a period stipulated in the agreement, at a price that exceeds the sale price (or the price fixed in the agreement of the value of the aforesaid affiliated company), the sale price will be increased by an increment amount.

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

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

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 6 - Discontinued Operations (cont'd)**

**1. Koor Trade Ltd. (cont'd)**

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

	<b>March 31</b>
	<b>2006</b>
	<b>Unaudited</b>
	<b>NIS thousands</b>
<u>Assets related to discontinued operation:</u>	
Cash and cash equivalents	41,984
Short-term deposits and investments	4,147
Trade receivables	51,789
Other accounts receivable	14,470
Inventories	14,411
Investments in affiliates	18,781
Other long-term investments and receivables	38,078
Fixed assets, net	7,181
Intangible assets, deferred tax assets and deferred Expenses, net	7,461
	<u>198,302</u>
<u>Liabilities related to discontinued operation:</u>	
Credit from banks and others	8,295
Trade and other payables	119,441
Other long-term liabilities	28,427
Liability for employee severance benefits, net	1,675
Minority interest	994
	<u>158,832</u>

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 6 - Discontinued Operations (cont'd)**

**1. Koor Trade Ltd. (cont'd)**

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

	<b>Three months ended March 31</b>	<b>Year ended December 31</b>
	<b>2006</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>
<b>Revenues and earnings</b>		
Revenue from sales and services	41,203	41,203
Other income	638	4,599
	<u>41,841</u>	<u>45,802</u>
<b>Costs and losses</b>		
Cost of sales and services	27,309	27,309
Selling and marketing expenses	7,431	7,431
General and administrative expenses	4,495	4,495
Other expenses	2,840	2,840
Finance (income), net	(318)	(318)
	<u>41,757</u>	<u>41,757</u>
<b>Earnings before income tax</b>		
Income tax	84	4,045
	<u>(1,459)</u>	<u>(1,459)</u>
	(1,375)	2,586
Minority interest in subsidiaries' results, net	<u>(253)</u>	<u>(253)</u>
<b>Net earnings (loss) for the period</b>	<u>(1,628)</u>	<u>2,333</u>

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

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**Note 6 - Discontinued Operations (cont'd)**

**2. Isram Wholesale Tours and Travel Ltd.**

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

Pursuant to the sale, Isram has been presented as a discontinued operation.

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

	<b>March 31</b>
	<b>2006</b>
	<b>Unaudited</b>
	<b>NIS thousands</b>
Assets related to discontinued operation:	
Cash and cash equivalents	5,355
Trade receivables	21,720
Other accounts receivable	22,014
Other long-term investments and receivables	1,297
Fixed assets, net	1,530
Intangible assets, deferred tax assets and deferred expenses, net	3,694
	<u>55,610</u>
Liabilities related to discontinued operation:	
Trade payables	23,096
Customer advances	27,869
Other payables	9,050
Liability for employee severance benefits, net	294
Minority interest	(1,570)
	<u>58,739</u>

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

**Note 6 - Discontinued Operations (cont'd)**

**2. Isram Wholesale Tours and Travel Ltd. (cont'd)**

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

	<b>Three months ended March 31 2006</b>	<b>Year ended December 31 2006</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>
<b>Revenues and earnings</b>		
Revenue from sales and services	44,697	253,473
Other income	-	8,001
	<u>44,697</u>	<u>261,474</u>
<b>Costs and losses</b>		
Cost of sales and services	38,205	219,573
Selling and marketing expenses	1,130	5,143
General and administrative expenses	6,336	23,413
Finance income, net	(75)	(262)
	<u>45,596</u>	<u>247,867</u>
<b>Earnings (loss) before income tax</b>	(899)	13,607
Income tax	(163)	(5,240)
	<u>(1,062)</u>	<u>8,367</u>
Minority interest in subsidiaries' results, net	192	(226)
	<u>192</u>	<u>(226)</u>
<b>Net earnings (loss) for the year</b>	<u>(870)</u>	<u>8,141</u>

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

**Note 6 - Discontinued Operations (cont'd)**

**3. Sheraton-Moriah (Israel) Ltd. (“Sheraton”)**

On April 26, 2007 the Company completed the sale of its entire 56.5% shareholding in Sheraton Moriah Israel Ltd. to Azorim Tourism Ltd. See Note 5 (1). Pursuant to the sale, Sheraton has been presented as a discontinued operation.

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

	<b>March 31</b>	<b>March 31</b>	<b>Year ended</b>
	<b>2007</b>	<b>2006</b>	<b>December 31</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>	<b>NIS thousands</b>
<b>Assets related to discontinued operation:</b>			
Cash and cash equivalents	<b>36,100</b>	29,509	35,611
Trade receivables	<b>40,957</b>	38,802	49,031
Other accounts receivable	<b>39,666</b>	33,871	17,935
Inventories	<b>5,305</b>	4,836	3,409
Investments in affiliates	<b>1,663</b>	2,730	2,043
Other long-term investments and receivables	<b>5,822</b>	25,946	23,184
Fixed assets, net	<b>661,322</b>	682,974	665,870
Intangible assets, deferred tax assets and deferred expenses, net	<b>17,514</b>	17,573	17,562
	<b>808,349</b>	836,241	814,645
<b>Liabilities related to discontinued operation:</b>			
Credit from banks and others	<b>120,802</b>	19,280	20,167
Trade payables	<b>29,764</b>	32,089	27,372
Other payables	<b>35,209</b>	39,301	29,907
Customer advances	<b>4,470</b>	6,023	3,262
Long-term bank loans	<b>460,192</b>	607,060	569,759
Liability for employee severance benefits, net	<b>4,470</b>	3,912	4,102
Minority interest	<b>76,980</b>	59,442	72,175
Deferred tax liabilities	<b>10,939</b>	10,260	10,977
	<b>742,826</b>	777,367	737,721

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

**Note 6 - Discontinued Operations (cont'd)**

**3. Sheraton-Moriah (Israel) Ltd. (“Sheraton”) (cont'd)**

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

	Three months ended March 31 2007	Three months ended March 31 2006	Year ended December 31 2006
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
<b>Revenues and earnings</b>			
Revenue from sales and services	69,690	65,672	312,801
Company's equity in the operating results of investee companies, net	360	(253)	1,006
Other income	-	208	4,714
	<u>70,050</u>	<u>65,627</u>	<u>318,521</u>
<b>Costs and losses</b>			
Cost of sales and services	56,373	50,667	227,622
Selling and marketing expenses	3,553	3,695	16,231
General and administrative expenses	10,112	10,527	47,087
Other expenses	102	-	-
Finance expenses, net	5,188	9,708	16,455
	<u>75,328</u>	<u>74,597</u>	<u>307,395</u>
<b>Earnings (loss) before income tax</b>	<u>(5,278)</u>	<u>(8,970)</u>	<u>11,126</u>
Income tax	(568)	(1,084)	(4,698)
	<u>(5,846)</u>	<u>(10,054)</u>	<u>6,428</u>
Minority interest in subsidiaries' results, net	2,523	4,561	(2,984)
	<u>2,523</u>	<u>4,561</u>	<u>(2,984)</u>
<b>Net (loss) earnings for the year</b>	<u><u>(3,323)</u></u>	<u><u>(5,493)</u></u>	<u><u>3,444</u></u>

**Notes to the Interim Financial Statements as at March 31, 2007 (unaudited)**

**Note 7 - Business Segments**

**Information regarding business segments of the Koor Group:**

	<b>Three months ended March 31</b>		<b>Year ended</b>
	<b>2007</b>	<b>(1) 2006</b>	<b>December 31</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>	<b>NIS thousands</b>
<b>Revenues from sales and services</b>			
Telecommunications	<b>51,339</b>	74,678	260,384
Others	<b>2,279</b>	2,421	10,068
	<b>53,618</b>	77,099	270,452
<b>Group's equity in the results of investee companies, net</b>			
Telecommunications	<b>25,870</b>	(20,839)	(106,781)
Agro-chemicals	<b>84,130</b>	85,699	65,925
Venture capital investments	-	(544)	(4,739)
Others	<b>2,880</b>	(5)	8,040
	<b>112,880</b>	64,311	(37,555)
<b>Earnings (losses) before income tax</b>			
Telecommunications	<b>20,246</b>	(17,990)	(121,613)
Agro-chemicals	<b>84,130</b>	85,699	65,925
Venture capital investments	<b>23,401</b>	(2,207)	39,585
Others	<b>2,424</b>	355	11,816
Total	<b>130,201</b>	65,857	(4,287)
Joint general income ( expenses)	<b>4,216</b>	(2,717)	(8,250)
Financing expenses, net	<b>(8,136)</b>	(13,910)	(97,480)
Earnings (losses) before income tax	<b>126,281</b>	49,230	(110,017)

(1) Reclassified with respect to discontinued operations (see Note 6(2) and Note 6(3)).

(2) Reclassified with respect to discontinued operations (see Note 6(3)).

