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KOOR INDUSTRIES LTD
Form 20-F
July 15, 2003

As filed with the Securities and Exchange Commission on July 15, 2002

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, 2002

Commission file number 1-9178

KOOR INDUSTRIES LTD.

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

Israel

(Jurisdiction of incorporation or organization)

14 Hamelacha Street, Rosh Ha'ayin 48091, Israel

(Address of principal executive offices)

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

15,882,405 Ordinary Shares, Par Value NIS 0.001 Per Share

Indicate by check mark whether the registrant (1) has filed all reports

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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 No

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

Item 17 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.

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, 2002 have been translated into U.S. dollars for the convenience of the reader at the exchange rate of the dollar on December 31, 2002 (NIS 4.737 = \$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, 2002.

In this document, all references to Koor's percentage of equity

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ownership in its subsidiaries are prior to having taken into account the possible dilution that may be caused by the exercise of options granted to executive officers of certain subsidiaries or of other convertible securities.

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PART I

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

Not Applicable.

Item 2. Offer Statistics and Expected Timetable.

Not Applicable.

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Item 3. Key Information.

Selected Financial Data

The following selected consolidated financial data as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 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, 1998, 1999 and 2000 and for the years ended December 31, 1998 and 1999 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 2002 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, 2002, 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, 2002, and not in the figures as originally reported.

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	Year Ended December, 31			
	1998	1999	2000	2001
	(In thousands, except share and per share amounts)			
	Adjusted NIS as of December 31, 2001			
<hr style="border-top: 1px dashed black;"/>				
Operating Data:				
Israeli GAAP:				
Net sales.....	12,041,299	9,972,689	8,451,292	7,606,807
Gross profit.....	2,922,627	2,493,827	2,135,011	1,730,350
Operating earnings.....	686,555	763,445	727,211	365,323
Financial expense, net.....	229,388	342,367	329,256	440,745
Other income (expense), net.....	(5,921)	238,833	171,265	(634,623)
Minority interest, net.....	296,465	(8,691)	(55,141)	8,528
Net earnings (loss) from continuing activities.....	(18,817)	627,927	57,811	(2,672,016)
Result of discontinued activities, net.....	69,707	(34,879)	231,287	(29,841)
Net earnings (loss).....	50,890	593,049	289,098	(2,701,857)

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Basic earnings (loss) per share.....	3.31	37.69	18.79	(177.89)
Weighted average number of shares used in computing basic earnings (loss) per share.....	15,723,996	15,737,564	15,384,206	15,188,463
Diluted earnings (loss) per share...	3.31	37.33	18.71	(177.89)
Weighted average number of shares used in computing diluted earnings (loss) per share.....	15,723,996	16,062,126	15,597,253	15,188,463
U.S. GAAP:				
Income (loss) before extraordinary item.....	44,683	575,018	270,749	(2,675,351)
Net income (loss).....	46,645	580,931	270,749	(2,675,351)
Basic earnings (loss) per ordinary share.....	2.99	36.92	17.59	(176.14)
Basic earnings (loss) per ADS.....	0.60	7.38	3.52	(35.23)
Diluted earnings (loss) per ordinary share.....	2.98	36.56	17.52	(176.14)
Diluted earnings (loss) per ADS.....	0.60	7.32	3.50	(35.23)
Balance Sheet Data:				
Israeli GAAP:				
Working capital.....	3,766,005	982,942	1,067,584	1,895,711
Total assets.....	19,208,395	18,760,251	16,006,607	13,773,648
Short-term debt.....	2,949,271	3,843,736	2,911,151	1,846,459
Long-term debt.....	5,071,466	4,395,962	3,586,142	5,029,618
Shareholder's equity.....	4,401,992	4,735,491	4,650,750	2,238,010
U.S. GAAP:				
Total assets.....	19,425,845	18,965,551	16,173,124	14,284,638
Shareholder's equity.....	4,366,719	4,776,040	4,531,714	2,176,091
Number of shares outstanding.....	15,723,327	15,730,971	15,192,379	15,168,884

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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)
-----	-----	-----
December 2002.....	4.791	4.632
January 2003.....	4.898	4.769
February 2003.....	4.924	4.810
March 2003.....	4.858	4.687
April 2003.....	4.671	4.521
May 2003.....	4.577	4.373

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:

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Year -----	Average (NIS) -----
1998.....	3.802
1999.....	3.142
2000.....	4.078
2001.....	4.203
2002.....	4.738

On June 25, 2003, the exchange rate was NIS 4.386 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 2002 or 2001. We paid final dividends of NIS4.10 per share in 2000.

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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 36 million and NIS 35 million in 2002 and 2001, respectively, pursuant to management agreements between us and several of our subsidiaries and affiliates. In addition, in 2002 and 2001 we received NIS 21 million and NIS 20 million, respectively in dividends from Makhteshim-Agan Industries Ltd., or MA Industries. In 2000, we received NIS 380 million in dividends from subsidiaries and affiliates, of which NIS 244 million was received from Telrad Networks Ltd., or Telrad, and NIS 62 million was received from Koor Properties Ltd, or Koor Properties. In recommending dividends and approving management fees, the directors and applicable committees of each of our subsidiaries must take into consideration the legal, tax, and financial effects of such dividends and management fees, as well as the best interests of each such subsidiary. In addition, several of our subsidiaries and affiliates are subject to dividend payment restrictions derived from their organizational documents, credit agreements and tax considerations. If we were to experience a substantial reduction in the level of payments of dividends and management fees, there can be no assurance that alternative sources of cash flow, including bank loans and asset sales, would be available for us to carry out our investment plans, pay dividends on our capital stock and service our debt.

In addition, all of our unsecured indebtedness is effectively subordinated to all liabilities, including trade payables of our subsidiaries

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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, 2002 and 2001, our telecommunication equipment business accounted for approximately 11.5% and 16.3%, 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. Telrad's systems and ECI's

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systems are used by telecommunications carriers and service providers. Many telecommunications carriers and service providers in markets throughout the world have experienced, and are continuing to experience, substantial declines in sales and revenues and have incurred significant operating losses. In addition, many carriers and service providers have stopped deploying new networks or have 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. Also, we expect the number of carriers and service providers to remain small because of the substantial capital requirements involved in establishing networks.

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 and 2002, including downsizing manpower, streamlining operations and divestiture of non-core businesses. As a result of the losses incurred by ECI during 2001 and 2002, we reduced the book value of our investment in ECI and wrote-off the excess goodwill relating to that investment. The reduction in book value and writing-off of goodwill in ECI, together with our share in ECI's losses and the losses recorded by Telrad, represented nearly 80% of our consolidated losses for the year ended December 31, 2001 and approximately 72% of our consolidated losses for the year ended December 31, 2002.

If these industry-wide conditions persist, they 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.

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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, 2002 and 2001, our telecommunication equipment and defense electronics businesses accounted for approximately 35.3% and 35.2%, respectively, of our consolidated net sales, and 67.8% and 63.5%, respectively, of our total consolidated research and development expenses. In addition, for the years ended December 31, 2002 and 2001, our investment in ECI accounted for 65.4% and 59.7%, 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 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.

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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 supplier.

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, 2002 and 2001, approximately 8.6% and 9.0%, respectively, of our consolidated net sales and 69.1% and 71.7%, 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, 2002 and 2001, our agrochemicals business accounted for approximately 58.3% and 54.9%, 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,

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product registration, construction of production lines and marketing in support of new product introduction. An important component for the growth of the agrochemicals business is the successful introduction of new generic chemical products to the market in a timely manner (promptly after patents expire). Reintroduction of any new legislation to extend the life of patents on chemical products could adversely affect the ability of the agrochemicals business to introduce new products.

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

Most countries require us to obtain regulatory approval prior to selling newly introduced products, which is both time consuming and expensive. Any delay in the development or

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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 involves a high degree of risk.

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, 2002, we had invested, through Koor CVC, approximately \$147 million in such start-up companies and venture capital funds and had committed to invest an additional \$36 million in these venture capital funds. In May 2003, Koor CVC entered into an agreement with a secondary venture capital fund to sell part of its commitment to these venture capital funds, which sale was completed on June 23, 2003. As a result of this sale, Koor CVC's future commitment to invest in these external venture capital funds was reduced to \$12 million. This amount may be drawn upon by the funds at any time over the next 5-7 years, based upon their needs.

During 2002, through Koor CVC, we invested in, and made loans to, startup companies in the amount of approximately \$5 million and we transferred approximately \$7 million to our portfolio venture capital funds, as part of our commitment to invest in these external funds. 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

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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;
- 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

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- 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 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

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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 Ltd., or 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 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. 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

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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 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, 2002 and 2001, sales of military products accounted for approximately 23.8% and 18.9%, 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. Since the beginning of 2001, however, worldwide demand for high tech military equipment and products has increased as many countries are improving their existing military equipment with new technology and investing in new products while reducing their expenditures on traditional military equipment. In Israel, there has been a strengthening of the upward trend in demand for defense electronic products as reflected in the size and rate of receipt of orders, and the increase in backlog which was approximately NIS 3.1 billion and NIS 3.4 billion as of December 31, 2002 and 2001, respectively. This trend is likely to have a positive influence on the profitability and financial

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condition of our defense electronic business. However, 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.

A continuation of the recent political and economic crisis in Argentina could have a negative impact on our agrochemicals business.

The serious deterioration in the political and economic situation in Argentina that started in December 2001 has continued throughout 2002 and during the first half of 2003. This deterioration resulted in the Argentine government declaring an official default on Argentina's foreign debt payments in December 2001. In the beginning of 2002, the Argentine government announced the end of the parity of the Argentine Peso to the U.S. dollar. As a result, the Argentine Peso lost approximately 98% of its value as of December 31, 2002 and may continue to lose value. In addition, in July 2002 the government of Argentina published regulations setting the various rates for the linkage of customer debt payments to the dollar, so that customer debts 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%,

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which were determined according to the products for which the agricultural inputs were used, as defined in those regulations.

As a result of the devaluation, the assets of MA Industries' operations in Argentina, which consisted primarily of trade and other receivables, decreased by \$15 million. In view of the economic and political situation in Argentina and the experience gained in the application of the regulations published by its governments, MA Industries recorded a net one-time write-off of \$10.8 million in 2002 and \$8 million in 2001, primarily in respect of bad debts and erosion of the assets of the consolidated company in Argentina. In addition, MA Industries and several of its subsidiaries have guaranteed indebtedness to banks of its Argentine subsidiary in a total amount of \$17 million. For the year ended December 31, 2002 and 2001, sales by MA Industries' Argentine operations represented approximately 1.3% and 2.5%, respectively, of MA Industries' total sales those years. A continuation of this recession in the Argentine economy, including the high inflation levels and the rapid devaluation of the Argentine Peso against the dollar could adversely affect MA Industries' results of operations.

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 generally linked to the Israeli CPI. In addition, certain borrowings are

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linked to the dollar or other non-Israeli currencies or to the CPI. During the calendar years 2000, 2001 and 2002, the annual rate of inflation was approximately 0%, 1.4% and 6.5%, respectively while the NIS was devalued against the dollar by approximately -2.7%, 9.3% and 7.3%, respectively. Consequently, during the calendar years 2000, 2001 and 2002, the annual rate of inflation as adjusted for devaluation was approximately 2.7%, -7.2% and -0.8%, 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 hedging transactions with respect to certain specific commitments and general hedging transactions with respect to monetary assets and liabilities denominated in non-Israeli currencies (including Brazilian currency). There can be no assurance, however, that such activities, or others that we may undertake from time to time, will eliminate the negative financial impact of such fluctuations.

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Conditions in Israel may affect our operations.

We and our principal subsidiaries and affiliates are incorporated under the laws of the State of Israel, where our principal offices and a substantial portion of our operations are located. We are directly influenced by the political, economic and military conditions affecting Israel. Accordingly, any major hostilities involving Israel, the interruption or curtailment of trade between Israel and its present trading partners, a significant increase in inflation or a significant downturn in the economic or financial condition of Israel could have a material adverse effect on our business, our results of operations and our financial condition. In addition, there are a number of countries, particularly in the Middle East, which restrict business with Israel or Israeli companies. There can be no assurance that restrictive laws or policies directed toward Israel or Israeli businesses will not have an adverse impact on the expansion of our business.

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

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

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

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

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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, 2002 and 2001, our consolidated companies received government grants in the fields of research and development of approximately NIS 26 million and NIS 40 million, respectively. To be eligible for these grants, programs and tax benefits, we must continue to meet certain conditions, including making certain specified investments in fixed assets from our equity. From time to time, the Israeli government has discussed reducing or eliminating the availability of these grants, programs and benefits. A change in government policy in these areas would likely have a negative affect on our results of operation and financial condition.

Under this program, by virtue of the "approved enterprise" status granted to several of our subsidiaries and several of the companies in which we have invested, these companies are entitled to various tax benefits. The income derived from these companies during a period of up to 10 years, from the year in which these companies first had taxable income (limited to 12 years from commencement of production or 14 years from the date of the approval, whichever is earlier), is subject to a corporate tax rate ranging

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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.

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Benefits are conditional upon the fulfillment of terms set forth by law or in deeds of approval. Non-fulfillment of such terms could cause cancellation of the approved enterprise benefits, in whole or in part, and the return of previously provided benefits plus interest and linkage differentials. As of December 31, 2002, 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

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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 and convertible debentures 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, 2002 and 2001, international sales represented approximately 80.3% and 80.4%, respectively, of our consolidated net sales. A majority of our sales are derived from businesses in which we are the leading producer or provider of such goods and services in Israel. For the year ended December 31, 2002, we reported consolidated net sales of NIS 7,236 million (\$1.5 billion), consolidated operating profit of NIS 489 million (\$103 million) and a consolidated net loss of NIS 782 million (\$165 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, as of June 25, 2003, held 28.95% of our outstanding ordinary shares. Beginning in July 1998, we initiated an extensive corporate restructuring program, designed to transform Koor into a diversified investment holding company with controlling stakes in leading high-growth, export-oriented Israeli companies. Based on these criteria, we have made the strategic decision to focus on three businesses: telecommunication equipment, defense electronics and agrochemicals. Despite the downturn in the telecom industry, we still believe that our holdings in these businesses have the potential to grow internally, as well as through mergers and acquisitions.

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

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NIS 48 million in 2001 and real estate assets of Tadiran for approximately NIS 278 million in March 2002.

During 2002, 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

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partners; identifying new market opportunities; focusing on core competencies, while divesting non-core assets; and streamlining group operations.

In the second half of 2002, we entered into an agreement with a new international strategic partner for the Elisra Defense Group. Elta Systems Ltd., or Elta, a wholly-owned subsidiary of Israel Aircraft Industries Ltd., Israel's largest industrial company acquired from us a 30% minority stake in Elisra. This transaction generated \$100 million in cash for us. In the same period, MA Industries continued to identify new growth opportunities and acquired 11 high margin products and the licenses and distribution rights related to these products from Bayer CropScience for (euro)200 million, and extended its presence in the European agrochemical market.

During 2002, 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, ECI signed, in April 2003, an agreement to sell most of the assets and liabilities of Innowave ECI Wireless Systems Ltd., a subsidiary of ECI, to Alvarion Ltd. for a total consideration of \$20 million. In addition, ECI received a 5-year option to purchase 200,000 shares of Alvarion, at a share price of \$3.

In 2002, Telrad initiated a three-pronged major reorganization plan, aimed at returning the company to profitability and maintaining positive cash flow. These steps included: reducing expenses through staff reduction; merger of businesses; and rescheduling of bank debt.

In 2002, we completed the rescheduling of all of our long-term debt, pursuant to the rescheduling agreements reached in 2001 with several Israeli banks. We divested non-core holdings, such as real estate and certain other businesses, we generated \$150 million in cash from the sale of assets, including the sale of 30% of Elisra, and we repaid \$125 million in bank debt.

In May 2003, Koor CVC signed an agreement with a secondary venture capital fund to sell its investments in several external venture capital funds, which sale was completed on June 23, 2003. As a result of this sale, Koor CVC's future commitment to invest in these external venture capital funds was reduced to \$12 million. This amount may be drawn upon by the funds at any time over the next 5-7 years, based upon their needs.

Our Telecommunication Equipment Business

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

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Our telecommunication equipment business generated NIS 830 million and NIS 1,241 million of sales in 2002 and 2001, respectively, representing 11.5% and 16.3%, respectively, of our consolidated net sales for such years. International sales accounted for 89.2% and 85.3% of our telecommunication equipment business' sales for 2002 and 2001, respectively.

Excluding sales of ECI, which were not consolidated in our results of operations in 2002 and 2001, a majority of the sales made by our telecommunication equipment business are made to one principal customer: Nortel. In 2002 and 2001, sales to Nortel represented 52% and 55%, respectively, of our telecommunication equipment business' sales. In May 2000, we, Telrad and Nortel entered into an agreement to establish a new company

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under the name Nortel Networks Israel (Sales and Marketing) Ltd., or Nortel Israel. This venture, in which Nortel is the majority shareholder and we own 28%, acquired and operates Telrad's public switching and TX1 Systems businesses, which currently comprise the majority of Telrad's sales to Nortel.

The principal companies in our telecommunication equipment business are:

	Percentage Of Equity Ownership -----	Principal Products and Services -----
ECI Telecom Ltd.	30.74%	Telecommunication equipment and systems
Telrad Networks Ltd.	100.00%	Telecommunication equipment and systems

ECI Telecom Ltd. (ECI)

ECI is a provider of advanced telecommunications solutions to telecommunications service providers worldwide, focused mainly on the metropolitan optical and access telecommunications markets. 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.

ECI had announced, in August 2000, its intention to reorganize its business and operate through five principal subsidiaries. A plan was subsequently approved by its board of directors that provided for the transfer of its business and assets to these subsidiaries, with, at least initially, the parent company serving as a holding company and a sub-contractor of such subsidiaries. Although subsidiaries were established, which absorbed the employees of the various operations, this plan was not carried out to its completion, and the operating assets and liabilities of the relevant operations were never transferred. In November 2002, ECI announced a revised strategy designed to focus on its core access and optical businesses within an integrated company.

These core businesses are operated through two divisions:

- o The Inovia Broadband Access Division; and

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- o The Lightscape Optical Networks Division.

The above strategy includes the re-absorption into the parent company of the employees engaged in those operations considered part of ECI's core businesses, and the sale, or combining with third parties, of the other operations.

Inovia Broadband Access Division

The Inovia(R) Broadband Access Division operated from the end of 2000 through 2002 as Inovia Telecoms Ltd., or Inovia.

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The Broadband Access Division develops, manufactures, markets and sells innovative access products, which enable telecommunications service providers to mass deploy broadband networks and offer a variety of new advanced services. The division's solutions enable telecommunication service providers to enhance their local loop usage performance and efficiency. The division's systems increase line capacity and facilitate advanced services on existing infrastructure.

The Broadband Access Division's product line is subdivided into two categories, broadband access solutions and narrowband access solutions. Broadband access addresses the use of copper telephone wire to provide voice, data, and video services at multi-megabyte-per-second speeds. Narrowband access, which predated broadband, involves products that can be used to increase the capacity and improve the performance of standard telephone lines.

Over the last two years, market trends have pointed to a significant rise in demand for broadband access products, as telecommunications service providers around the world have viewed digital subscriber lines, or DSL technologies, as a means for boosting revenues while leveraging their existing investment in the copper infrastructure. ECI has moved with this trend, providing customers with the opportunity for increased telephony revenues while emphasizing the low cost of ownership inherent in ECI's broadband access product line. Currently, broadband access sales make up the majority, approximately 80%, of the Broadband Access Division's revenues.

Lightscape Optical Networks Division

The Lightscape(TM)Optical Networks Division was formed at the beginning of 2003 by combining the operations of Lightscape Networks Ltd., or Lightscape, and Enavis Networks Ltd., or Enavis.

Lightscape, which evolved from the optical networks business unit of ECI, provided telecommunications service providers with metropolitan and regional intelligent and flexible multi-service optical transmission solutions. Its product lines 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.

Enavis evolved from the bandwidth management business unit of ECI. The Enavis products enable end-to-end bandwidth management of global data and voice communications

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networks. Its networking equipment allows communications service providers to enhance the efficiency of bandwidth usage across their transport networks, converting the raw bandwidth provided by optical equipment into differentiated communication services. The main application of Enavis' cross-connect products is global gateways, seamlessly interconnecting networks operating on different protocols between North America and Europe as well as Asia Pacific and Latin America. Enavis products offer the full range of interfaces with speeds ranging from fractional T-1, or narrowband, through O-C-48, or superband, and can support Time Division Multiplexing, or TDM, Frame Relay, IP and ATM protocols, providing a smoother migration path to next generation networks.

In addition, as part of the reorganization announced in 2002, ECI combined the principal operations of ECI Telecom-NGTS Ltd., or NGTS, which

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provides products that support IP telephony, as well as products intended to increase the transmission capacity of satellite communication, optical cables, microwave communications and coaxial cables, with those of NexVerse Networks, inc., a privately held company, renamed Veraz Networks, Inc., or Veraz. ECI holds approximately 43% of the share capital, or 36% on a fully diluted basis, of Veraz.

In addition, as part of the reorganization announced in 2002, ECI discontinued the operations of InnoWave ECI Wireless Systems Ltd., or InnoWave. In April 2003 ECI completed the sale of InnoWave's operations to Alvarioun Ltd.

ECI continues to hold its 59% interest in the publicly traded ECTel Ltd., or ECTel, a developer and global provider of revenue assurance and surveillance solutions for circuit-switched and packet-switched wireline and wireless networks and various start-up companies.

For the year ended December 31, 2002, ECI reported revenues of \$646 million, a gross profit of \$251 million, a loss from continuing operations of \$78 million and a net loss of \$156 million. ECI is included in our financial statements on an equity basis only.

As of December 31, 2002, we had increased our stake in ECI to 30.74% through the following transactions: the exercise of a call option to purchase an additional 5% interest in ECI from Clal Electronics on February 8, 1999 for NIS 593 Million (\$142 Million); the merger between ECI and TTL pursuant to which Tadiran received a 12.5% interest in ECI; the effectuation of an open market stock buyback program by ECI in 2000; the purchase by us of all ECI shares held by Tadiran in the first quarter of 2001; and additional open market purchases by us of ECI shares during the second quarter of 2001. 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 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 the financial ratios agreed upon in a facility agreement with several banks, and therefore the banks are entitled to demand the immediate repayment of all the loans. Accordingly, long-term loans of approximately \$107 million were reclassified as current liabilities on ECI's year-end balance sheet. On May, 28, 2003 ECI entered into a letter agreement with the banks with respect to the facility agreement. The parties agreed to significantly ease the financial covenants in the facility beginning in January 2004 and

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that effective June 30, 2003, ECI would no longer be in default with respect to the financial covenants as these were suspended until the end of 2003. Under the terms of the letter agreement, as of June 30, 2003, ECI had \$60 million in long-term loans and a \$30 million short-term credit facility.

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

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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:

- o Nortel Telecom Solutions, or NTS, is the division responsible for research and development as well as sales and support for Nortel Networks. NTS develops carrier-grade quality products with a rapid time-to-market deployment.
- o Public Network Reseller, or PNR, provides end-to-end solutions for telecom and service providers. PNR 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, offering various products and services, which have been established as independent subsidiaries of Telrad. The three start-ups 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.

Reorganization plans

Beginning in November 1998, Telrad's board of directors approved a series of reorganization plans including reorganizing Telrad's operations into three independent market-oriented divisions. The reorganization plans 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 expenses for each year since 1998 and the 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, our financial statements include an expense of NIS 109 million, recorded under the item "Other income (expenses), net." The amounts to be paid in

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connection with the reorganization plan during 2003 are presented in the 2002 financial statements as current liabilities.

As part of Telrad's reorganization plan, in 1999 and 2000, Telrad effected 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

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

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.

Com-Match Ltd. Com-Match 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 2002 totaled NIS 9.8 million.

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

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in 1998 and which is engaged in the development and manufacture of PABX telephony equipment, based on VOIP technology. Following the closing of this transaction, Telrad held 52% of the merged company, Telrad Connegy Communications Inc., or Connegy. In 2002, Connegy's net sales were \$24.7 million.

As part of its program to reduce costs, Telrad Telrad closed two of its subsidiaries, Galaxtel and Aptonix, during 2001 and Telrad closed a third subsidiary, Firebit, in 2002.

In addition, in January 2001, Telrad sold Felix Telecom, its subsidiary in Romania, for \$1.8 million.

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Relationship with Nortel

Telrad held licenses to the know-how underlying the digital switching and transmission systems utilized in its public and private switches pursuant to agreements 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.

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 62 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. 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, Koor 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. This option is due to be exercised in October 2003, at a price which reflects the sum of our investment in Nortel Israel, plus a yield based on a formula set forth in the agreement.

Through these agreements, the parties established the terms on which Telrad will supply certain products to Nortel Israel and to other Nortel entities.

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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. Telrad is currently negotiating several additional agreements with Nortel.

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.

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As of December 31, 2002 and 2001, Telrad's long-term credit risk exposure from these agreements amounted to NIS 57 million and NIS 63 million, respectively.

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.

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

For the years ended December 31, 2002 and 2001, our defense electronics business had sales of NIS 1,720 million and NIS 1,440 million, respectively, representing 23.8% and 18.9%, respectively, of our consolidated net sales during these periods. In 2002 and 2001, the majority of sales of our defense electronic business were made to defense-related customers.

In 2002, the Elisra Group's sales to the Israeli Ministry of Defense, or IMDF represented 21% 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, equipm
Tadiran Electronic Systems Ltd.	100.0(1)	Command, control, communications and intell systems for defense applications
Tadiran Spectralink Ltd.	100.0(1)	Advanced data and video links for military
BVR Systems (1998) Ltd.	46.15(1) (2) (3)	Advanced military training and simulation s

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

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- (2) The ordinary shares of BVR are quoted on Nasdaq's over-the-counter market (OTC BB: BVRB).
- (3) As a result of open market purchases of BVR's shares by Elisra during February 2003, Elisra's interest in BVR increased to 48.69%.

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.

As of December 31, 2002, our defense electronics business had an aggregate backlog of confirmed orders of NIS 3.1 billion (\$656 million) compared to NIS 3.4 billion (\$727 million) as of December 31, 2001.

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

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addition, Koor granted to Elta options to increase its holdings in Elisra by up to an additional 8% in consideration of a maximum sum of approximately \$26 million.

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 sale of Elisra's shares.

Elisra and Elta 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.

Tadiran Electronic Systems Ltd. (Tadiran Electronic)

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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 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, approximately about \$33 million. As of December 31, 2002, we have received advances from the insurance companies amounting to approximately \$10 million.

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

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

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

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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 communications. Based on these links, command and control systems for airborne and naval applications are developed.

BVR Systems (1998) Ltd. (BVR)

BVR Systems, in which the Elisra Group holds a 46.15% interest, is a diversified leader in advanced military training and simulation systems. BVR offers highly efficient and cost effective solutions for the simulation, training and debriefing needs of modern air, sea and ground forces. In 1999, Koor and Elisra acquired 28.6% of its interest in BVR through open market share purchases at various prices with an aggregate cost of NIS 20 million, and through the acquisition by Elisra of shares in BVR in a private placement transaction for an aggregate consideration of NIS 14 million.

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During 2000, Elisra acquired additional shares of BVR from several third parties and through a private placement for approximately \$10 million. Elisra also purchased all the BVR shares held by Koor. During the third quarter of 2000, we recorded a provision of approximately NIS 44 million for the write-off of part of the goodwill, due to a decrease in the value of the shares that is not of a temporary nature. In 2001, Elisra bought an additional 22,300 shares of BVR in the open market (representing approximately 0.2% of BVR's outstanding shares). Elisra has the right to appoint five out of nine nominees to BVR's board of directors. BVR has been consolidated in our financial statements since September 30, 2000.

During 2001 and 2000 the Elisra Group recorded write-off of approximately NIS 44 million and NIS 38.8 million, respectively, in the goodwill of BVR, in order to reflect a decrease in value not of a temporary nature, based, among other things, on the business operations, the backlog, and updated assessment of the market potential.

In 2002, BVR incurred an operating loss of \$3.9 million and a net loss of \$5.8 million and had negative cash flows from operating activities of \$3 million. In addition, as of December 31, 2002, BVR had a \$3.6 million shareholders' deficit and a negative working capital deficit of \$5.4 million. On the same date, BVR's cash balances amounted to \$860 thousand and its short-term bank credit totaled \$15.1 million. Subsequent to the date of its financial statements, BVR reached an agreement with its principal bank lenders to reschedule the repayment of \$9 million of short-terms loans to June 30, 2004.

BVR is confident that the rescheduling of the above mentioned loans, together with meeting forecasted cash flows from operating activities for 2003, as well as obtaining orders forecasted in the budget approved by its board of directors will enable it to meet its anticipated commitments for at least 12 months following the date of approval of its financial statements.

During February 2003, Elisra acquired an additional 2.54% of BVR's outstanding shares through open market share purchases at various prices.

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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 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 Ciencias 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, 2002 and 2001, our agrochemicals business had sales of NIS 4,220 million (\$891 million) and NIS 4,180 million (\$882 million), respectively, representing 58.3% and 54.9%, respectively, of our consolidated net sales during such periods. International

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activities, primarily sales in Europe, North America and Latin America, accounted for 90.9% and 90.6% of our agrochemicals business' sales in 2002 and 2001, respectively.

The principal companies in our agrochemicals business are:

	Percentage Of Equity Ownership -----	Principal Products and Services -----
Makhteshim-Agan Industries Ltd.	52.37 (1)	Holding Company
Makhteshim Chemical Works Ltd.	100.0 (2)	Insecticides and fungicides and other chemi
Agan Chemical Manufacturers Ltd.	100.0 (2)	Herbicides and synthetic aroma chemicals
Milenia Agro Ciencias S.A.	100.0 (2)	Formulation and distribution of crop protection chemicals

(1) The ordinary shares of MA Industries are traded on the Tel Aviv Stock Exchange, or TASE.

(2) Indicates the percentage of direct ownership by MA Industries.

The Agrochemicals Business Environment in 2002

The agrochemical industry has been undergoing both a structural change and a crisis in recent years. The conventional market continues to shrink in value, and in 2002 the market declined to about \$25.1 billion, a decrease of about 2.4%. Most of that decrease was due to difficult weather conditions in North America, East Asia and Europe, as well as severe devaluations of local currencies in South America. The decline encompasses most geographical regions, but was most severe in South America, where the market volume decreased by approximately 14.5% in 2001 and approximately 4.9% in 2002 following the economic crises in most countries on that continent. In North America, the decline continued in 2002, while Europe recorded growth of about 7.5%, in terms of US dollars which was derived mainly from the strengthening of the euro against the dollar.

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In 2002, the agrochemical industry continued its structural change through a wave of mergers and acquisitions activity. During the year, in addition to the ongoing mergers of the leading manufacturers, the smaller companies based in Japan experienced significant mergers and acquisitions activity, driven mainly by the erosion of prices and from the entry of multinational corporations into the Japanese market.

In addition to the consolidation in the Japanese market, several small Australian companies, participated in the mergers and acquisition activity and MA Industries participated in the merger and acquisition activity by acquiring the German company Feinchemie Schwebda GmbH, or Feinchemie, (as described below in the "Foreign Activities" section).

The six largest companies in the agrochemical industry hold about 80% of the market, and MA Industries, which is the eighth largest company in the

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agrochemical industry, expects that this present structure will, in the short term, stabilize the market. MA Industries also anticipates that the merger activity of the industry in 2002 will continue.

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 about 65% today 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 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

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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.

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The MA Group plans to develop, over the next several years additional agrochemical products, including fungicides, insecticides, herbicides and biotechnological products, based primarily on a substantial number of patents held by other parties expiring within the next few years. The MA Group purchased the right to manufacture and market several 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 60 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 2002 and 2001.

Foreign Activities

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

In 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-Andean 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

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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 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, 2002, MA industries received cash proceeds of approximately \$102 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.

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:

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- 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 Bulldock(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 Nemacur(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.

The total volume of sales in 2001 of the products acquired from Bayer was 124 million euro, of which about 95% of sales were in Europe.

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 this strategy, MA Industries acquired from Bayer the products described above, and acquired, in April 2002 the German distribution company

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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 November 2002, MA Industries announced that Agan Aroma, a division of Agan, has established a joint company with Firmenich of Switzerland. The new company, InnovAroma, will operate in the flavor and fragrance market, which is estimated at approximately \$13 billion per year. InnovAroma will develop, manufacture and market aroma materials for the cosmetics, detergent, soft drinks and food industries.

Our Venture Capital Business

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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 funds. As a result of the reduction in the size of one of the funds, this commitment declined to approximately \$68 million in 2002. During 2002, Koor CVC transferred \$7 million to these external venture capital funds as part of its commitment. As of December 31, 2002, Koor CVC had a commitment to invest an additional \$36 million in portfolio companies and venture capital funds.

In May 2003, Koor CVC entered into an agreement with a secondary venture capital fund to sell part of its commitment to these external venture capital funds, which sale was completed on June 23, 2003. As a result of this sale, Koor CVC's future commitment to invest in these external venture capital funds was reduced to \$12 million. This amount may be drawn upon by the funds at any time over the next 5-7 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 2002, Koor CVC transferred \$5 million in follow on investments in its portfolio start-up companies.

During 2002, Koor CVC recorded \$20 million of provisions for the expected decline in value of several of its portfolio companies and transactions. These provisions were as a result of depreciation in value, and the closure of some of the companies. These provisions also included

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precautionary provisions for Koor CVC's investment in several portfolio companies in light of changes in their respective business environments and business plans.

As of December 31, 2002, we had invested, through Koor CVC, approximately \$147 million in such venture capital funds and start-up companies, not including \$8 million to acquire Tadiran Scopus Ltd. from Tadiran Ltd.

Our Other Businesses

We have an interest in certain 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

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	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, 2002 and 2001, our tourism business had sales of NIS 362 million (\$76.4 million) and NIS 454 million (\$95.8 million), respectively.

Sheraton Moriah (Israel) Ltd. (Sheraton Moriah)

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 288 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 Arkia holdings continued to enhance its position in the aircraft leasing

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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.

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. We sold all our shares for some NIS 2 million during May 2002.

Real Estate

Koor Properties Ltd. (Koor Properties)

Koor Properties, our wholly-owned subsidiary, owns and develops directly and indirectly real estate in Israel. As of December 31, 2002, 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, a consolidated subsidiary of Koor Properties sold part of its real estate assets for NIS 51 million (of which approximately NIS 34 million received in 2002). We did not record any profit or loss from the sale.

For the year ended December 31, 2002, the rental income related to Koor Properties was NIS 8.5 million.

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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, 2002 and 2001, Koor Trade had sales of NIS 84 million and NIS 159 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

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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 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 about 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.

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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 962 million (\$203 million). We also received 47.5% of the share capital of Mashal Alumina Industries Ltd., 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 252 million (after the allocation of NIS 140 million deferred taxes). Prior to the sale, on December 30, 1999, we received dividends from Mashav in the amount of NIS 383 million.

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 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

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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 sheets as of December 31, 2002, as a current investment in listed securities in the amount of approximately \$0.5 million, or approximately 3.2% 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 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

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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 and, in the case of the Elisra Group, the Israel-United States Bi-National Research and Development Foundation, or BIRD-F. 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 2001 and 2002 as a percentage of the total sales of these businesses:

2001	2002
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Telecommunications Equipment	11.3%	14.3%
Defense Electronics	3.7%	3.9%
Agrochemicals	2.0%	1.8%

Our updated research and development efforts have resulted in an increase in the sales of internally designed products. We believe that research and development in high technology areas, such as our telecommunications equipment, defense electronics and agrochemicals businesses, is important to our future growth, particularly with respect to products targeted for export markets. Accordingly, we anticipate that these businesses will account for a majority of our research and development efforts in the future. As part of our research and development programs, we not only seek to develop new products, but also to apply newly developed technologies to improve our existing products.

In each of the last three fiscal years, we received grants from the Government of Israel through the Office of the Chief Scientist, or OCS, for the development of certain products. We generally receive from the OCS 20% to 66% of certain research and development expenditures for particular projects. Under the terms of the Israeli Government participation, a royalty of 2% to 5% of the net sales of products developed from a project funded by the OCS is generally

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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. Although we expect that the "Approved Enterprise" status of our facilities and programs will continue, the termination or reduction of these grants, programs and tax benefits and in particular, benefits available to us as a result of the approved enterprise status of substantially all of our facilities and programs, could have a material adverse effect on our operations and financial condition. See Note 16A of Notes to Financial Statements.

In May 1999, the Israeli Ministry of Finance decided to place limits on the funds OCS grants to Israel's 24 largest companies. The full extent of this decision is unknown, however it may have a material adverse effect on our results of operations.

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 BIRD-F) and the net cost to us of our research and development expenses:

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	Year ended December 31,		
	2000	2001	2002
	-----	-----	-----
	(Adjusted NIS in thousands)		
Gross research and development expenses	396,009	296,665	262,040
Portion funded by the Israeli Government and BIRD-F(1)	7,422	12,641	803
Net research and development expenses	388,587	284,024	261,237

(1) Net of royalties.

Competition

In 2002, 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

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

Patents and Intellectual Property

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

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

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Regulation

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

Monopoly and Pricing Regulations

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

Environmental, Health and Safety Matters

General

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

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

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

In addition to the specific matters described below, at a number of

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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 Company-owned property will require significant redemption or cleanup in the future, and we cannot speculate about the timing or potential costs associated with any such cleanup. It is possible, however, that material expenditures could be required with respect to these past practices.

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

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

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

Agrochemical Industry

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

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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 2002 were \$33 million compared to \$11 million in 2001. The registration expenditures increase by \$22 million as compared to the registration expenditures in 2001 as a result of MA Industries' purchase of several business licenses and distribution rights for agrochemical products from Bayer. 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.

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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 is demanding that on that date, the quality of the wastes 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 make 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 total multi-year investment of about \$20 million. The short-term requirements for BOD are currently being clarified and the options discussed, between the plant, the industrial council and the Ministry for 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

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the President's Prize as well as commendations from the Ministry for the Environment. MA Industries is in compliance with ISO-9001 and ISOP-14,001 (environment) and with OHSAS 18,000 (safety).

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, including the following:

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

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significant difficulties in obtaining or retaining the necessary permits or licenses, but no assurance can be given that we will continue to be able to obtain or retain such permits or licenses or that one or more permits or licenses will not be revoked, or that governmental policy with respect to military exports will not be altered. Difficulties in obtaining or retaining such permits or licenses, if encountered in the future, could have a material adverse effect upon our business.

In addition, the revocation of a required permit or license, after having been granted, would likely preclude us from fulfilling our contractual obligations. In such a case, we might be unable to assert the defense of force majeure (or a similar defense) relating to any resulting breach of contract claim and might therefore be held liable for damages, or subject to other penalties. Substantial damages arising from such a claim could have a material adverse effect upon our results of operations and financial condition. In addition, suspension or disbarment of us as a government contractor is among the possible penalties that could be imposed for defaulting on a contractual obligation due to the revocation of a license.

Joint Ventures, Subcontracting and Teaming Arrangements

Several of our military projects are conducted through joint ventures, subcontracting and other "teaming" arrangements pursuant to which we are responsible for a portion, but less than all, of a project. In certain instances, we are not permitted to participate, or even assist, in portions of projects for which we are not responsible. Notwithstanding the foregoing, in the event of a termination of, or a default under, certain prime contracts or subcontracts (whether or not we are a party to such prime contract or subcontract), including a termination for cause or convenience or a default on the part of a joint venture partner, prime contractor, subcontractor or "teaming" partner (for which termination or default neither we nor such other person is responsible and which termination or default may be beyond the control of us and such other person), 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

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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.

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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 amount of development.

Organizational Structure

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

Name of Subsidiary/Affiliate	Country of Incorporation or residence	Percentage of ownership interest	Percentage of voting power (if different from ownership)
Koor Corporate Venture Capital	Israel	100%	*
Elisra Electronic Systems Ltd.	Israel	70%	*
Makhteshim-Agan Industries Ltd.	Israel	52.4%	*
ECI Telecom Ltd.	Israel	30.7%	*
Telrad Networks Ltd.	Israel	100%	*
Sheraton Moriah (Israel) Hotels Ltd.	Israel	55.0%	*
Knafaim Arkia Holdings Ltd.	Israel	28.3%	*
Koor Trade Ltd.	Israel	100%	*

Property, Plants and Equipment

Our headquarters are located in the Telrad building at 14 Hamelacha Street, Rosh Ha'ayin, Israel where we own an aggregate of 18,000 square feet of office space. We purchased this facility in 1998.

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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.

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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.

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, 2002. The financial statements of the MA Group, Elisra Group 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

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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, 2002 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 CPI at the time the related transactions were effected. Monetary items are included in the adjusted balance sheet as of December 31, 2002, 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

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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 affiliates that use dollars as their functional currency are adjusted on the basis of the exchange rate of the dollar, in accordance with Section 29 of Opinion 36 of the ICPAI. For these companies, at each balance

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sheet date, the figures of the balance sheet and the statements of operations for the year then ended are translated into shekels at the exchange rate for the dollar prevailing at the end of the year. 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, 2002. Differences arising from the translation are included in a separate item of shareholders' equity under "Cumulative foreign currency translation adjustments, net."

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

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

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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.

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Investments in Subsidiaries and Affiliates

Our investments in our subsidiaries and affiliates are presented using the equity method. Goodwill arising from the acquisition of equity in a 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 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.

Derivative financial instruments

We use derivative financial instruments such as interest rate and currency swaps, forward contracts, options and futures, in order to reduce risks associated with changes in the CPI and foreign exchange rates, such as import commitments for raw materials, export of goods and liabilities linked to the CPI or foreign currencies. The results of derivative financial instruments held as a hedge for existing assets and liabilities are recognized concurrently with the results of the hedged assets and liabilities. The results of derivative financial instruments held as hedge for firm commitments are deferred, and are recognized in the same period in which the results from the hedged transactions are recognized. Derivative financial instruments, which are not earmarked for hedging purposes, are presented in the balance sheet based on their fair value. Changes in the fair value are recorded in the statement of income in the period in which they occur. The fair value of derivative financial instruments is determined based on their market value, and in the absence of such a price, the fair value is determined based on a valuation model.

Recently issued accounting pronouncements in Israel

In October 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

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Accounting Standard No. 12 is to be applied until January 1, 2004. Until December 31, 2003, we will continue 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

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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 February 2003, the IASB issued Israel Accounting Standard No. 15 - "Impairment of Assets," which is effective for financial statements for reporting periods commencing January 1, 2003 or thereafter. This Standard, which is based on International Accounting Standard No. 36, addresses the accounting treatment and presentation of impairment of assets, and establishes procedures to be implemented in order to ensure that assets are not presented in amounts exceeding their recoverable value. Though according to U.S. GAAP (e.g. FASB 144 and FASB 142), recoverability tests are performed based on undiscounted expected cash flows, Standard No. 15 indicates that an asset's recoverable value is the higher of the asset's net selling price and the asset's value in use, the latter being equal to the asset's discounted expected cash flows. While we estimate that the adoption of the provisions of Standard No. 15 as of December 31, 2002, would not have had a material effect on our financial position and results of operations as of such date, the use of different assumptions with respect to the expected cash flows from our assets and other economic variables, primarily the discount rate, may lead to different conclusions regarding the recoverability of our assets' carrying values and to the potential need to record an impairment loss for our long-lived assets.

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) -----	An a d -----
1998	166.30	8.6	NIS 4.160	17.6	
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	

-
- (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.

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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, 2002, the excess of our foreign currency denominated or linked monetary liabilities over our foreign currency denominated or linked monetary assets was NIS 2,727 million (the majority of which was dollar-denominated or dollar-linked).

In addition, we and certain of our subsidiaries have entered into financial agreements with major Israeli banks and other financial institutions in order to reduce the overall exposure of assets and liabilities denominated in foreign currencies, and commitments for the purchase of raw materials and the sale of goods in currencies other than the dollar arising from foreign currency exchange rates. Such agreements include forward sales, purchase contracts, sale options and swap transactions. For more details regarding the balance of our hedging agreements as of December 31, 2002, 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

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in this annual report.

	CPI - adjusted NIS				2001/2000	CPI - adjusted	
	2000	%	2001	%	Changes	2002	
	(In thousands)		(In thousands)			(In thousands)	
REVENUES FROM SALES							
Telecommunication equipment	2,377,219	28.13	1,240,788	16.31	(47.81)	829,749	1
Defense electronics	1,238,492	14.65	1,439,561	18.93	16.24	1,719,972	2
Agrochemicals	3,737,060	44.22	4,180,156	54.95	11.86	4,220,018	5
Venture capital investments	86,525	1.02	88,519	1.16	2.31		
Other	1,011,996	11.98	657,783	8.65	(35.00)	466,454	
Total	8,451,292	100.00	7,606,807	100.00	(10.00)	7,236,193	10
OPERATING EARNINGS:							
Telecommunication equipment	269,568	32.64	(216,829)	(55.73)	NA	(182,055)	(3)
Defense electronics	57,752	6.99	57,266	14.72	(0.84)	80,368	1
Agrochemicals	476,653	57.72	598,329	153.79	25.53	671,158	12
Venture capital investments	(6,379)	(0.77)	(8,452)	(2.17)	32.50	(8,046)	(
Other	28,181	3.42	(41,269)	(10.61)	NA	(32,677)	(
Total	825,775	100.00	389,045	100.00	(52.89)	528,748	10
Joint general expenses	(98,564)		(23,722)		(75.93)	(39,665)	
Total operating earnings	727,211		365,323		(49.76)	489,083	
CAPITAL EXPENDITURES:							
Telecommunication equipment	108,016	16.74	60,832	6.13	(43.68)	15,853	
Defense electronics	33,430	5.18	54,209	5.46	62.16	46,632	
Agrochemicals	343,931	53.32	837,542	84.37	143.52	1,264,935	9
Venture capital investments	1,825	0.28	2,984	0.30	63.50	--	
Other	157,886	24.48	37,187	3.74	(76.45)	10,665	
Total	645,088	100.00	992,754	100.00	53.89	1,338,085	10
DISCONTINUED ACTIVITY	2,434		198		(91.86)	--	
CORPORATE ASSETS	822		394		(52.07)	110	
	648,344		993,346		53.21	1,338,195	
EXPORTS OF KOOR PRODUCTS BY BUSINESSES (1)							
Telecommunication equipment	1,868,317	31.95	1,058,390	19.42	(43.35)	709,329	1
Defense electronics	748,097	12.80	891,820	16.36	19.21	1,077,270	2
Agrochemicals	3,072,233	52.53	3,419,277	62.73	11.30	3,470,070	6

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Venture capital investments	83,920	1.43	81,160	1.49	(3.29)	--
Other	75,693	1.29	--	--	NA	--
Total	5,848,260	100.00	5,450,647	100.00	(6.80)	5,256,669
	=====	=====	=====	=====	=====	=====

DESTINATIONS (2)

North America	1,809,221	30.94	1,239,027	22.73	(31.52)	1,185,258
Europe	1,736,690	29.70	1,683,806	30.89	(3.05)	2,009,623
South America	1,451,405	24.82	1,469,837	26.97	1.27	894,477
Asia and Australia	710,919	12.15	920,474	16.89	29.48	1,022,731
Africa	140,025	2.39	137,503	2.52	(1.80)	144,580
Total	5,848,260	100.00	5,450,647	100.00	(6.80)	5,256,669
	=====	=====	=====	=====	=====	=====

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

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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 7,236 million in 2002 from NIS 7,607 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 325 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 89 million. These decreases were partially offset by an increase in the sales of Elisra and of MA industries, by NIS 280 million and NIS 40 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.

Gross profit. Gross Profit increased 5.1% to NIS 1,818 million in 2002 from NIS 1,730 million in 2001. The increase in gross profit is primarily attributable to improved profits at MA Industries (NIS 121 million), Elisra (NIS 51 million) and Telrad (NIS 32 million), which were partially offset by a decline in the gross profit of Tadiran Electronic (NIS 43 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.

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Operating earnings. Operating earnings increased 33.8% to NIS 489 million in 2002 from NIS 365 million in 2001. The increase in operating earnings is mainly due to a substantial drop in the operating loss of Telrad (NIS 79 million), paired with an increase in the operating earnings of MA Industries (NIS 72 million), Elisra (NIS 19 million), Sheraton Moriah and Isram, partially offset by a decline in the operating earnings of TEI (NIS 45 million), Tadiran (NIS14 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 9.3% to NIS 400 million in 2002 from NIS 441 million in 2001. The decrease in finance expenses in 2002 is primarily attributable to a decline in the finance expenses of MA Industries (NIS 27 million), Tadiran (NIS 25 million) and Sheraton Moriah (NIS14 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%.

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Other income (expenses), net. Other income, net amounted to NIS 6 million in 2002 compared to other expenses, net of NIS 634 million in 2001. Other income, net in 2002 included: NIS 349 million capital gain, which included NIS 346 million from the sale of 30% of Elisra's shares to Elta, NIS 30 million from the sale of Tadiran's real estate, and a one-time gain from Koor Trade of NIS 36 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 61 million capital loss in 2001;

- o NIS 168 million write-down of investments and assets, which included a NIS 95 million write down of Koor CVC investments, a NIS 52 million expense recorded by MA Industries relating to the ongoing economic crisis in Argentina, a NIS 36 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 an NIS 404 million provision for the decline in value of investments and assets.
- o NIS 129 million provision for severance compensation, primarily at Telrad (NIS 100 million), MA Industries (NIS 15 million), and Elisra (NIS 14 million), compared to NIS 84 million in 2001.
- o NIS 93 million goodwill amortization and write-off, primarily at MA Industries (NIS 79 million) and Elisra (NIS 13 million), compared to an NIS 85 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 398 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,

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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 increased 300% to NIS 160 million in 2002 from NIS 40 million in 2001. The increase is primarily attributable to Telrad (NIS 127 million, NIS 69 million of which were during the reporting period as a result of writing off a tax asset compared to a tax gain of NIS 53 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 118 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 257 million compared with NIS 1,931 million in 2001. This item includes mainly our equity share in the net loss of ECI, in the amount of NIS 251 million (including a NIS 25 million write-down of our investment in ECI), compared with NIS 1,917 million in 2001 (including a NIS 1,137 million write-down of our investment in ECI).

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Minority interest in subsidiaries, net. Minority interest in subsidiaries, net amounted to a loss of NIS 61 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 66 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 30 million.

Net income (loss). As a result of the above factors, we reported a net loss of NIS 782 million in 2002, compared to a net loss of NIS 2,702 million in 2001.

Telecommunications Equipment Business

	Year Ended December 31,		
	2001	2002	2002
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	1,240,788	829,749	175,164
Operating earnings (loss).....	(216,829)	(182,055)	(38,432)

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Sales from our telecommunication equipment business decreased 33.1% in 2002 to NIS 829 million from NIS 1,241 million in 2001. Telrad's sales decreased by NIS 326 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 572 million in 2002 compared to NIS 682 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 709 million in 2002 compared to NIS 1,058 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 (217) million operating loss in 2001 to a NIS (182) million operating loss in 2002. The decrease resulted from a sharp decrease in sales at Telrad.

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Defense Electronics Business

	Year Ended December 31,		
	2001	2002	2002
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	1,439,561	1,719,972	363,093
Operating earnings.....	57,266	80,368	16,966

Sales from our defense electronics business increased 19.5% to NIS 1,720 million in 2002 from NIS 1,440 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 80.4 million from NIS 57.3 million in 2001.

Agrochemicals Business

	Year Ended December 31,		
	2001	2002	2002
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	4,180,156	4,220,018	890,863
Operating earnings.....	598,329	671,158	141,684

Sales from our agrochemicals business increased 1% to NIS 4,220 million in 2002 from NIS 4,180 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

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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 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 671 million in 2002 from NIS 598 million in 2001 as a result of increased sales and savings in production costs.

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Venture Capital Business

	Year Ended December 31,		
	2001	2002	2002
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	88,519	--	--
Operating earnings (loss)....	(8,452)	(8,046)	(1,699)

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.

Other Businesses

	Year Ended December 31,		
	2001	2002	2002
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	657,783	466,454	98,470
Operating earnings (loss)....	(41,269)	(32,677)	(6,898)

Sales from our other businesses decreased 29.1% to NIS 466 million in 2002 from NIS 658 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 33 million in 2002 compared to NIS 42 million in 2001, primarily due to the decrease in sales of Sheraton Moriah and Isram.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

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.

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Net sales. Net sales decreased 10.0% to NIS 7,607 million in 2001 from NIS 8,451 million in 2000. Exports and international operations, representing 71.6% of our net sales, decreased 6.8% in 2001 compared to 2000, primarily attributable to a decrease of approximately NIS 1,124 million in Telrad's sales as a result of the major decline in the international telecommunications market. The further decrease in sales stems from the deconsolidation of divested companies, mainly Tadiran Batteries which amounted to approximately NIS 105 million. The decrease in sales in 2001 compared to 2000 of the above-mentioned companies was offset by the increase in sales over the same period of MA Industries, by NIS 443 million, and of Elisra, by NIS 201 million.

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Sales in our telecommunication equipment business decreased by 47.8% in 2001 compared to 2000 while sales in our agrochemicals, defense electronics and venture capital businesses increased by 11.9%, 16.2% and 2.3%, respectively, over the same period.

Gross profit. For the reasons discussed above, gross profit decreased 19.0% to 1,730 million in 2001 from 2,135 million in 2000 with a decrease of approximately NIS 587 million in Telrad's gross profit.

Operating earnings. Operating earnings decreased 49.8% to NIS 365 million in 2001 from NIS 727 million in 2000, primarily due to the sharp decline of Telrad's sales in 2001. Operating earnings in our telecommunication equipment business decreased from operating earnings of NIS 269 million in 2000 to operating losses of NIS 217 million in 2001. Operating earnings in our other business segment also decreased from operating earnings of NIS 28 million in 2000 to operating losses of NIS 41 million in 2001. Operating earnings in our defense electronics business decreased by 0.8% in 2001 compared to 2000 and operating loss in our venture capital business increased by 32.5% over the same period. Operating earnings in our Agrochemicals business increased by 25.5% in 2001 compared to 2000.

Finance expenses, net. Finance expenses, net increased 33.9% to NIS 441 million in 2001 from NIS 329 million in 2000. During 2001, the shekel was devalued against the dollar by 9.3% while the CPI increased by 1.4%, compared to 2000, during which there had been a devaluation of 2.7% of the shekel against the dollar and no change in the CPI. The increase in finance expenses in 2001 compared to 2000 occurred primarily at the parent company level (NIS 49 million), and stems mainly from dollar-linked financial liabilities. In addition, an increase in finance expenses of NIS 29 million over the same period was recorded at MA Industries, following the increase in its financial liabilities and the increase in cost of financing in Brazil due to the volatility of the Brazilian Real exchange rate. Finance expenses at Sheraton Moriah increased by NIS 20 million in 2001 compared to 2000, and at Elisra by NIS 16 million over the same period.

Other expenses, net. Other expenses, net amounted to NIS 635 million in 2001 compared with other income, net of NIS 171 million in 2000. Other expenses, net in 2001 primarily included capital losses of NIS 471 million, compared to a capital gain of NIS 510 million recorded in 2000, primarily as a result of the depreciation of assets and investments in investee companies in 2001 compared to the realization of assets and investments in 2000. The other expenses included in this item include severance pay expenses totaling NIS 84 million in 2001, which were primarily at Telrad, compared to NIS 299 million in 2000, and the amortization of goodwill in the amount of NIS 85 million in 2001 compared to NIS 54 million in 2000.

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Taxes on income. Taxes on income decreased 76.0% to NIS 40 million in 2001 from NIS 164 million in 2000. Taxes on income as a percentage of income before taxes in 2001 and 2000 were 0.5% and 1.9%, respectively. The decrease is attributable primarily to Telrad (NIS 112 million), MA Industries (NIS 15 million) and Koor Properties (NIS 32 million), as a result of a decrease in their respective sales and operating earnings.

Equity in the operating results of affiliates, net. Equity in the losses of affiliates, net in 2001 totaled NIS 1,931 million compared with NIS 292 million in 2000. This item includes

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mainly our equity share in the net loss of ECI, in the amount of NIS 1,917 million (including the provisioning down of the investment in ECI by NIS 1,137 million), compared with NIS 253 million in 2000.

Minority interest in subsidiaries, net. Minority interest in subsidiaries, net amounted to a gain of NIS 9 million in 2001 compared with a loss of NIS 55 million in 2000. The change is primarily attributable to an increase in our minority interest in Sheraton Moriah and Be-Connected, both of which reported losses, and a decrease in our minority interest in M-A Industries, which reported profits.

Results of discontinued activities, net. Our operations in the construction and infrastructures segment effectively ended with the termination of the consolidation of USM, and therefore the results of the segment were reclassified and stated in this item. The loss from discontinued operations in 2001 amounted to NIS 30 million, compared to a profit of NIS 231 million in 2000, which included NIS 275 million net capital gain from the sale of Mashav Building and Construction and Middle East Tubes Co.

Net income (loss). As a result of the above factors, we reported a net loss of NIS 2,702 million in 2001, compared to a net income of NIS 289 million in 2000.

Telecommunications Equipment Business

	Year Ended December 31,		
	2000	2001	2001
	-----	-----	-----
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	2,377,219	1,240,788	\$ 280,976
Operating earnings (loss)....	269,568	(216,829)	\$ (49,101)

Sales from our telecommunication equipment business decreased 47.8% in 2001 to NIS 1,241 million from NIS 2,377 million in 2000. Telrad's sales decreased by NIS 1,124 million in 2001 primarily as a result of the declining telecommunications market and the sale of its operations to Nortel Israel in 2000.

Sales from our telecommunication equipment business attributable to sales of telecommunication equipment to Nortel were NIS 682 million in 2001 compared to NIS 1,269 million in 2000, or 54.9% compared to 53.4% of total telecommunication equipment business sales in 2001 and 2000, respectively.

Telecommunication equipment business exports amounted to NIS 1,058

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million in 2001 compared to NIS 1,868 million in 2000. The decrease of export sales resulted primarily in Telrad for the reasons discussed above.

Operating profit decreased in our telecommunication equipment business from a NIS 269 million operating profit in 2000 to a NIS 217 million operating loss in 2001. The decrease resulted from a sharp decrease in sales at Telrad.

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Defense Electronics Business

	Year Ended December 31,		
	2000	2001	2001
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	1,238,492	1,439,561	\$325,988
Operating earnings.....	57,752	57,266	\$ 12,968

Sales from our defense electronics business increased 16.2% to NIS 1,440 million in 2001 from NIS 1,238 million in 2000 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 decreased 0.8% in 2001 to NIS 57.3 million from NIS 57.7 million in 2000.

Agrochemicals Business

	Year Ended December 31,		
	2000	2001	2001
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	3,737,060	4,180,156	\$946,593
Operating earnings.....	476,653	598,329	\$135,491

Sales from our agrochemicals business increased 11.9% to NIS 4,180 million in 2001 from NIS 3,737 million in 2000, primarily as a result of increased sales of the MA group (see below). Approximately 81.8% and 82.2% of the sales in 2001 and 2000, respectively, were made outside of Israel, and approximately 36.7% and 37.6% of total sales in 2001 and 2000, 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 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 25.5% to NIS 598 million in 2001 from NIS 477 million in 2000 as a result of increased sales and savings in production costs.

Venture Capital Business

	Year Ended December 31,		
	2000	2001	2001
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	86,525	88,519	\$ 20,045
Operating earnings (loss)....	(6,379)	(8,452)	\$ (1,914)

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, 2001, we had invested, through Koor CVC, approximately \$126 million in venture capital funds and start-up companies. In addition, Koor CVC acquired Tadiran Scopus Ltd. (Scopus) from Tadiran Ltd. in 2000. During 2001, Scopus issued preferred shares to third parties, as a result of which Koor CVC's holding in Scopus decreased to 49.4% and its consolidation was terminated at the beginning of the fourth quarter of 2001.

Sales from our venture capital business increased 2.3% to NIS 89 million in 2001 from NIS 86 million in 2000, primarily as a result of increased sales at Scopus. Operating loss increased 32.5% to NIS 8 million in 2001 from NIS 6 million in 2000.

Other Businesses

	Year Ended December 31,		
	2000	2001	2001
	(Adjusted NIS in thousands)		(\$ in thousands)
Sales.....	1,011,996	657,783	\$148,955
Operating earnings (loss)...	28,181	(41,269)	\$ (9,345)

Sales from our other businesses decreased 35% to NIS 658 million in 2001 from NIS 1,012 million in 2000. 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 41 million in 2002 compared to operating earnings of NIS 28 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, 2002. Such information has been prepared on the same basis as our consolidated financial statements.

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	Quarter Ended				Year
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002	Dec 31,
	(in millions of U.S. dollars)				
Net sales.....	410	388	354	376	1,
Gross profit.....	107	100	87	90	
Research and development, net.....	13	15	14	13	
Operating income (loss).....	43	29	23	8	
Net income (loss).....	(105)	(17)	(63)	20	(

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

Recent Developments

On June 5, 2003, we sold in open market transactions 9,356,517 shares in MA Industries, for NIS 105.3 million (approximately \$24.1 million on the date of sale). Following the sale, we held 49.8% of the voting capital of MA Industries. We are currently in the process of determining whether we will be able to continue to consolidate MA Industries' results in our financial statements after the date of this transaction.

On May 28, 2003, we sold 500,000 of our treasury shares to Hermes Investment Management Ltd., or Hermes, one of the largest fund managers in the United Kingdom, for approximately \$10 million (NIS 44.5 million). The shares were acquired by Hermes on behalf of Britel Fund Nominees Ltd. and Possfund Nominees Ltd., two well-known pension funds in the United Kingdom which are managed and controlled by Hermes. As a result of the acquisition, as of June 25, 2003, Hermes holds, on behalf of these funds, 1,385,000 of our ordinary shares, representing approximately 8.8% of our outstanding ordinary shares.

In March 2003, Telrad sold in open market transactions 407,330 shares of Ectel Ltd., a publicly-traded subsidiary of ECI, which shares represented 50% of the total number of shares held by Telrad in Ectel, for approximately NIS 14 million.

On June 1 and June 4, 2003, we sold in open market transactions a total of 648,769 ordinary shares of Nice Systems Ltd., which represented all of our holdings in Nice Systems Ltd., for approximately \$10 million.

On April 1, 2003, Air Canada, a lessee of 12 Boeing 737-200 aircraft from Arkia Israeli Airlines Limited, or Arkia, filed a petition with a Canadian court for protection from creditors under Canadian law. In its petition, Air Canada requested a stay of proceedings to enable it to reorganize. As part of its reorganization, Air Canada declared, among other measures, a moratorium on lease payments to all aircraft lessors pending

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agreement on revised terms. Currently, Arkia and Air Canada are in the midst of discussions regarding future terms and conditions for the continued lease of these aircraft. Air Canada expressed its intention to continue to lease 10 of the 12 aircraft upon terms to be agreed upon among the parties. On July 3, 2003, Arkia received formal notice from Air Canada of the early termination of the lease of the two remaining aircraft, effective July 15, 2003. The revenues from these 12 aircraft amounted to approximately []% of all lease revenues of the aircraft leasing segment of Arkia in 2002. As of July 11, 2003, the total lease payments relating to these aircraft not paid by Air Canada to Arkia amounted to approximately \$3.2 million.

Since October 1, 2002, ECI had failed to comply with some of the financial ratios agreed upon in a facility agreement with several banks. On May, 28, 2003 ECI entered into a letter agreement with these banks with respect to the facility agreement. The banks agreed to significantly ease the financial covenants in the facility beginning in January 2004 and that effective June 30, 2003, ECI would no longer be in default with respect to the financial covenants as these were suspended until the end of 2003. Under the terms of the letter agreement, as of June 30, 2003, ECI had \$60 million in long-term loans and a \$30 million short-term credit facility.

Effective Corporate Tax Rate

We do not file a consolidated tax return with our subsidiaries, and we are taxed only on our own income. Each of our subsidiaries files its own tax return, based on its own taxable income. Our income tax obligations and our 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 the sale of assets. In 2002, we had a loss before taxes of NIS 304 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 2002 and 2001, we received management fees in the amount of NIS 36 million and of NIS 35 million, respectively, and dividends in the amount of NIS 29 million

and NIS 21 million, respectively. The dividends received in 2002 and 2001 include dividends from MA Industries that represent proceeds from divestitures.

Our shareholders' equity at December 31, 2002 decreased 21.3% to NIS 1,760 million, compared to NIS 2,238 million at December 31, 2001. The decrease in 2002 was primarily due to our net loss of NIS 782 million.

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Working capital at December 31, 2002 was NIS 1,196 million, compared to NIS 1,895 million at December 31, 2001 and NIS 1,067 million at December 31, 2000. The decrease in 2002 is primarily attributable to an increase of NIS 349 million in MA Industries' short-term debt (mainly due to short-term loans in connection with its acquisition of several new products), the transfer of our loan to Nortel Israel in the amount of NIS 176 million from long-term debt in 2001 to short-term debt in 2002 as a result of its maturity in 2003 and a decrease of NIS 363 million in Tadiran's current assets, which were partially offset by an increase of NIS 133 million in Elisra's working capital.

Long-term debt totaled NIS 4,423 million at December 31, 2002, or 32.3% of total assets on that date, compared to NIS 5,030 million at December 31, 2001, or 36.5% of total assets on that date. The decrease in the balance of long-term debt is attributed mainly to our repayment of NIS 900 million of our long-term debt, the repayment by Tadiran of NIS 284 million of its long-term debt and the repayment by Telrad of NIS 151 million of its long-term debt, which were partially offset by an increase of NIS 520 million in MA Industries' long-term debt. See note 15C(1) to our consolidated financial statements included elsewhere in this annual report.

Total debt at December 31, 2002 decreased 1.3% to NIS 6,783 million, or 49.5% of total assets, compared to NIS 6,876 million, or 50.0% of total assets, at December 31, 2001.

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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, 2002:

Contractual Obligations	Payments Due by Period			
	(In thousands of U.S. Dollars)			
	Total	Less Than 1 Year	1-3 Years	4-5 Years
Debt From Banks.....	1,034,555	208,908	275,505	487,392
Debentures.....	93,801	8,274	--	85,527
Operating Lease Obligations.....	56,225	11,399	23,232	8,295
Other Obligations.....	22,762	234	6,776	1,981
Total Contractual Cash Obligations.....	1,207,343	228,815	305,513	583,195

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, 2002:

Total	Amount of Commitment Expiration Per Per
	(In thousands of U.S. Dollars)

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Other Commercial Commitments	Amounts Committed	Less Than 1 Year	1-3 Years	4-5 Years
Guarantees (1).....	151,788	--	88,144	23,644
Commitments for the Purchase of Fixed Assets (2).....	4,855	4,855	--	--
Commitments for Investments in Venture Capital Funds (3).....	13,890	1,890	--	--
Total Commercial Commitments.....	170,533	6,745	88,144	23,644

- (1) Includes: (i) a guarantee Bezeq (Israeli telecommunications company) received from us in the amount of \$64 million; (ii) a guarantees totaling \$63 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 \$25 million. See note 22F to our consolidated financial statements included elsewhere in this annual report.
- (2) From time to time, several of our consolidated subsidiaries enter into agreements to purchase fixed assets.
- (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 6-8 years, based on their needs.

Cash Flows

Cash and cash equivalents decreased by NIS 52 million in 2002. Most of the decrease was as a result of a decrease at Tadiran (NIS 100 million), Telrad (NIS 92 million), Koor - the

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parent company (NIS 37 million) and TEI (NIS 27 million). The decline in cash was partially offset by an increase the in cash at Koor Trade (NIS 109 million) and Elisra (NIS 106 million)

Cash Flows from Operating Activities in 2002 were NIS 436 million, compared to NIS 454 million in the full year of 2001. Permanent cash flow generated by operating activities amounted to NIS 301 million in the reporting period, compared to NIS 118 million used for operating activities in the corresponding period in 2001. The increase in the cash flow from operating activities stems mainly from a decrease in trade receivables and other accounts receivable of NIS 290 million which occurred mainly at MA Industries and Telrad, and a NIS 53 million decline in net inventory (mainly at Telrad and Elisra), partially offset by an increase in MA Industries' inventory net of a NIS 209 million decline in trade payables and other payables.

Cash flows used for investment activities in 2002 utilized NIS 263 million of cash, compared to NIS 1,104 million used in 2001. The investment in fixed assets, net - after deduction of an investment grant, amounted to NIS 257 million, compared to NIS 427 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 826 million in 2002, compared with NIS 587 million in 2001, mainly as a result of investments by MA Industries. Investments in venture capital companies amounted to NIS 48 million, compared to NIS 157 million in the corresponding

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period last year. Proceeds from divestitures and disposal of fixed assets contributed NIS 826 million to the cash flow generated in investment activities, compared to NIS 296 million in the corresponding period last year.

The net proceeds from sale of investments contributed NIS 494 million to cash flows generated from investment activities in 2002, compared to NIS 181 million generated in 2001.

In 2002, investment in affiliated companies, net, totaled NIS 14 million compared to NIS 47 million in 2001.

The investment in consolidated subsidiaries totaled NIS 3 million in 2002 compared to NIS 68 million in 2001.

Finance activities for the full year of 2002 consumed NIS 228 million, compared to a cash contribution of NIS 403 million in the full year of 2001. Long-term loans received during the reporting period amounted to NIS 1,720 million, compared to NIS 2,993 million in the corresponding period in 2001. The loans were received at Koor - the parent company following the refinancing activities, at MA Industries and Telrad. Repayment of long-term loans in the reporting period amounted to NIS 1,911 million (including the refinancing activities at Koor - the parent company), compared to NIS 1,958 million in the same period last year. Loans were repaid mainly at Koor - the parent company, M-A Industries, Tadiran and Telrad.

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Short-term credit, net, increased by NIS 16 million in 2002, compared to a NIS 730 million decline in the same period last year. Most of the increase was at MA Industries, partially offset by a decrease in short-term credit, mainly by Koor - the parent company 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 6.5% in 2002 as compared to 1.4% in 2001. At the same time, the devaluation of the NIS against the dollar was 7.3% in 2002 and 9.3% in 2001. 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.

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Item 6. Directors, Senior Management and Employees.

Directors and Senior Management

The following table sets forth, as of June 25, 2003, the name, age and position of each of our directors and executive officers:

Charles R. Bronfman	72	Chairman of the Board of Directors
Rolando Eisen(1) (2)	61	Director
Paulette Eitan(1) (2)	57	Director
Ron Feinstein(1)	65	Director
Andrew Hauptman	34	Director
Eli Hurwitz	71	Director
Chemi Peres	45	Director
David Rubner	63	Director
Prof. Gabriela Shalev(1)	61	Director
Jonathan B. Kolber	41	Chief Executive Officer
Danny Biran	60	President
Yuval Yanai	51	Senior Vice President and Chief Financial Officer
Shlomo Heller	60	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.

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 Board of Green Market, a company in the area of direct delivery of grocery and other food

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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.

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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.

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.

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., R.M. Sheraton-Moriah Israel Ltd. and Nortel Networks 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, Telrad Networks and BVR Systems Ltd. Mr. Yanai holds a Bachelor degree in Accounting and Economics from the Tel Aviv University.

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 (21 persons) during 2002 consisted of approximately \$2.7 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, including \$0.9 million severance pay and retirement grant paid to 3 retired officers, but 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 2002) assigned their directors' compensation to Claridge Israel L.L.C. In addition, the directors' compensation paid by us to any directors associated with Bank Hapoalim (2 directors in 2002, each of whom

resigned during November 2002), has been paid directly to Bank Hapoalim. All 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 according to a decision of the Annual General Meeting. Directors who serve as our officers do not receive any compensation for their services on the board. For additional information concerning the compensation of directors, see Note 25C to our consolidated financial statements included elsewhere in this annual report.

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

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- 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.

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. 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.

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.

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At December 31, 2002, we and our consolidated subsidiaries had approximately 6,899 employees worldwide, which represented a decrease of 5.4% from year-end 2001. (Employees of companies which were sold or companies that were not consolidated during 2002, are not included in these figures.)

The table below sets forth the break down of the geographic location of the employees in the companies that remained with us, in the year-end of 2000, 2001, and 2002:

	Israel	Latin America	USA	Europe	Others	Total
2000	6,663	1,239	413	299	81	8,695
2001	5,447	1,247	336	203	64	7,297
2002	5,201	1,020	344	257	77	6,899

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

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

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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 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.

In 2002, our total labor costs (including temporary employees) amounted to approximately NIS 1,418 million, which represented approximately 19.6% of our total net sales as compared to NIS 1,865 million in 2001. 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.

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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

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Anfield Ltd. For details of their shareholdings, please see "Item 7. Major Shareholders and Related Party Transactions" and the related footnotes.

As of June 25, 2003, our executive officers, in the aggregate, held options under our stock option plans to purchase up to 203,875 ordinary shares. The exercise price for these options is NIS 101.38 per share and expire five years from the vesting date.

Employee Benefit Plans

As of June 25, 2003, options granted, or approved for grant, to all our employees to purchase up to 318,318 ordinary shares were outstanding.

The 1997 Stock-Based Compensation Plan

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.

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 below, The 1998 Stock Based Compensation Plan).

As of June 25, 2003, the following 36,321 options under the 1997 plan were outstanding: all of them with an exercise price of NIS 101.38, 5,039 options with an expiration date of May 2005 and 31,282 options with an expiration date of November 2005.

The 1998 Stock-Based Compensation Plan

On August 30, 1998, at an extraordinary general meeting of shareholders, our shareholders approved a private placement of 400,000 stock options, free of charge, to our employees. The options are exercisable for up to 400,000 ordinary shares of a par value of NIS 0.001 each (hereinafter - "the Plan"). All stock options under this Plan were allotted on different

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dates, and after expiration of some options and exercise of others, 244,158 options remained outstanding for exercise.

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 monetary bonus inherent in their option, computed on the date of exercise. Accordingly, the exercise price of each stock option is intended only for

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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 this 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 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.

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 25, 2003, 244,158 options to purchase our ordinary shares were outstanding as follows: 77,161 options with an exercise price of \$108.90 and an expiration date of July 2003, and 166,997 options with an exercise price of NIS 101.38 and an expiration date of July 2006.

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 June 14, 2000 by the Executive Committee of our Board of Directors. The main points of the plan are as follows:

A framework was approved for the allotment of 400,000 stock options exercisable for up to 400,000 of our ordinary shares, i.e. about 2.5% of our issued share capital.

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.

Exercise of the stock options is divided into three groups, so that at the end of the first year from the later of the determining date (June 14, 2000) or the date on which the employee

first started working for us, the entitlement to exercise one third of the quantity allotted will come into being, and the remaining two thirds of the quantity are allotted at the end of each of the following two years. The exercise period of each option that comes into being is 5 years from the date on which the entitlement comes into being. On October 5, 2000, the total quantity of 400,000 stock options was allotted to a trustee.

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As of June 25, 2002, there are 115,000 options outstanding under this plan.

Option Plans of Certain Subsidiaries

In April 2001, the Board of Directors of our subsidiary M-A Industries decided to distribute options to employees of M-A Industries and its consolidated companies. According to this plan, during 2002 and 2003, 17,400,000 options will be allocated, exercisable into 17,400,000 ordinary shares of NIS 1.00 par value each of M-A Industries (as of December 31, 2002, all options were allocated).

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Item 7. Major Shareholders and Related Party Transactions.

Major Shareholders

The following table sets forth certain information with respect to the beneficial ownership of our ordinary shares as of June 25, 2003 with respect to each person known to us to be the beneficial owner of 5% or more of our outstanding ordinary shares. None of our major shareholders has any different voting rights than any other shareholder.

Name -----	Number of Ordinary Shares Beneficially Owned -----	Percentage of Outstanding Ordina Shares Beneficially Owned (1) (2) -----
Claridge Israel L.L.C. (3).....	4,542,333	28.95%
Hermes Investment Management Ltd. (4)	1,385,000	8.83%
Anfield Ltd. (5).....	847,240	5.40%
All officers and directors as a group (5 persons).....	213,915 (6)	1.36%

- (1) Based upon 15,689,176 ordinary shares issued and outstanding on June 25, 2003, 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 and 2000 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

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- (2) As of June 25, 2003, one of our subsidiaries held an aggregate of 15,799 of our ordinary shares and 13,575,441 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 owned by the following two separate trusts, whose beneficiaries are relatives of Charles R. Bronfman, our Chairman of the Board:

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- I. Charles Bronfman Trust - a trust established under the laws of the U.S. primarily for the benefit of Charles R. Bronfman and Ellen J. Bronfman Hauptman and her issue. Mr. Andrew Hauptman, one of our directors is the husband of Mrs. Ellen J. Bronfman Hauptman;
- II. Charles R. Bronfman Trust - a trust established under the laws of the U.S. primarily for the benefit of Charles R. Bronfman and Stephen R. Bronfman and his issue.

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) Hermes Investment Management Ltd., one of the largest fund managers in the United Kingdom, acquired these shares on behalf of Britel Fund Nominees Ltd. (980,000 shares) and Possfund Nominees Ltd. (405,000 shares), two well-known pension funds in the United Kingdom which are managed and controlled by Hermes Investment Management Ltd.
- (5) Anfield, Ltd., a company registered in Israel, is 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.
- (6) Includes options to purchase ordinary shares held by certain officers, exercisable within 60 days of the date of this Annual Report and 40 shares held by one director, and does not include the ordinary shares held by Claridge Israel L.L.C., which may be deemed beneficially owned by Charles R. Bronfman and Andrew Hauptman as described in footnote 3 above, or the ordinary shares held by Anfield Ltd., which may be deemed beneficially owned by Jonathan B. Kolber as described in footnote 5 above.

As of December 31, 2002, we had 69 ADS holders of record in the United States, holding approximately 3.3% of our outstanding ordinary shares, as reported by The Bank of New York, the depositary for our ADSs.

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

result in a change in control of our company.

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Related Party Transactions

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

Item 8. Financial Information.

Consolidated Statements and Other Financial Information

See "Item 17. Financial Statements" and pages F-1 through F-150

Legal Proceedings

Claims against ECI

In June 2001, several putative shareholder class action lawsuits were filed against ECI, its former Chairman of the Board, its former CFO and its present CEO. The claims were filed in the United States Federal District Court in Virginia in the name of all persons who acquired securities of ECI during the period from May 2, 2000 to February 14, 2001. The plaintiffs alleged that ECI and the individual defendants made false and misleading statements about ECI's financial condition, revenues, expenses and results of operations, in violation of federal securities laws and the plaintiffs seek damages in an unspecified amount. In August 2001, the court consolidated the complaints into a single action and in September 2001, the court appointed the lead plaintiff. In October 2001, the lead plaintiff filed the first consolidated class action, which was dismissed by the court. In December 2001, the lead plaintiff filed a second amended consolidated class action against ECI, its present CEO and former CFO, which were not dismissed by the court.

On May 16, 2002, ECI and the plaintiffs entered into a memorandum of understanding for dismissal of the class action, subject to court approval. The memorandum of understanding provided for the establishment of a fund to cover the settlement to be paid by ECI's insurance carriers, and the dismissal of all claims against ECI and its present and former officers, without any liability or wrongdoing attributed to them.

On November 15, 2002, the court approved the arrangements described in the memorandum of understanding.

During 2002, ECI and a subcontractor had a difference of opinion regarding different terms in their agreement and the dispute was referred to an arbitrator. In the framework of the arbitration, the subcontractor filed a \$25.9 million lawsuit against ECI. ECI believes that the subcontractor's claims have no basis and intends to vigorously defend the lawsuit and file a counter-claim against the subcontractor.

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, an application was filed to recognize the plaintiffs as the representatives of all of Telrad's workers and employees. The court rejected the application for a representative claim. A statement of defense has been filed.

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, Tadiran Telecommunication Ltd., or TTL (a former subsidiary of Tadiran which merged with ECI in 1999) and Telrad, the Israeli Antitrust Commissioner conducted an examination at the offices of 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.

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On March 4, 2002, Tadiran (which committed to indemnify ECI on any damage resulting from the issues under review by the Israeli Antitrust Authority), 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 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 Network Termination Point are still being reviewed by the commissioner of the Israeli Antitrust Authority. 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.

Within the framework of the merger agreement among ECI, Tadiran and TTL, we agreed to indemnify ECI for any damage it incurred as a result of any subject connected with the matters being investigated by the Israeli Antitrust Commissioner.

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. 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.

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

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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.

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 \$24 million, by a group that acquired the rights to two banks that had declared bankruptcy. MA Industries' subsidiary is requested to repay a loan of \$1 million, out of the aforementioned amount, which the claimants maintain had been granted directly to the subsidiary. 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.

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

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fully paid ordinary shares. In addition, the ADSs are quoted on the Stock Exchange Automated Quotation System operated by the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (SEAIQ). The following table sets forth, for the periods indicated, the high and low last reported sale prices for our ADSs.

	ADSs	
	High	Low
Annual	\$	\$

1998.....	24.4077	12.0580
1999.....	24.0805	15.4596
2000.....	22.0625	13.0000
2001.....	13.9375	4.1400
2002.....	7.2700	2.1000
Quarterly 2001		

First Quarter.....	13.9375	7.5200
Second Quarter.....	8.3300	6.3100
Third Quarter.....	7.3300	6.2500
Fourth Quarter.....	6.7700	4.1400
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
Monthly 2002/2003		

December.....	2.9600	2.1000
January.....	2.4000	2.0500
February.....	2.4600	2.2100
March.....	2.8000	2.4600
April.....	3.3100	2.6000
May.....	4.4000	3.2200

On June 25, 2003, the last reported sale price of our ADSs was \$4.08 per ADS.

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

Trading in our Ordinary Shares

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

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of Israel.

	Ordinary Shares			
	High		Low	
	NIS	\$	NIS	\$
Annual				
1997.....	416.25	120.13	281.27	81.1
1998.....	481.00	126.25	270.00	70.8
1999.....	504.00	121.00	348.00	83.5
2000.....	455.00	111.85	255.50	62.8
2001.....	281.20	67.08	89.80	20.3
2002.....	166.60	36.92	48.60	10.2
Quarterly 2001				
First Quarter.....	281.20	67.08	157.00	37.4
Second Quarter.....	172.30	41.37	131.80	31.6
Third Quarter.....	153.30	35.20	95.00	21.8
Fourth Quarter.....	149.20	33.79	89.80	20.3
Quarterly 2002				
First Quarter.....	166.60	36.92	104.40	22.2
Second Quarter.....	130.40	26.20	101.30	20.7
Third Quarter.....	128.40	27.55	88.40	18.1
Fourth Quarter.....	87.30	17.96	48.60	10.2
Monthly 2002/2003				
December.....	68.90	14.85	48.60	10.2
January.....	57.90	12.00	49.80	10.5
February.....	60.60	12.52	55.80	11.5
March.....	68.00	14.12	60.60	12.5
April.....	77.40	16.96	63.90	13.7
May.....	92.70	18.75	73.50	16.2

As of June 25, 2003, the last reported price of our ordinary shares on the TASE was NIS 89.40 (or \$20.51) per share.

Item 10. Additional Information.

Memorandum and Articles of Association

Organization and Register

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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

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

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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.

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

Certain types of resolutions, called special or extraordinary resolution, such as resolutions amending a company's articles of association and regarding changes in capitalization, mergers, consolidations, windings up,

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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 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

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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.

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 example, resolutions amending the articles of association or authorizing changes in capitalization

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or in the rights of shareholders) requires the affirmative vote of at least 75% of the shares voting in person or by proxy.

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

The Board of Directors has the power to set aside our cash profits to pay a final dividend after making appropriations for capital reserves; such a dividend must be approved at a general meeting. No dividend shall be declared at a general meeting which is greater than that recommended by the Board of Directors. The Board of Directors is also entitled to pay shareholders an

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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 with an authorization from such member regarding his ownership as of the record date.

Right of Non-Israeli Shareholders to Vote

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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 3,501,230 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.

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

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On November 2, 2002, we entered into a shareholders' agreement with Elta and Elisra in order to govern the relationship between us and Elta as the sole owners of Elisra. The shareholders' agreement includes provisions with regard to the composition of the board of directors of Elisra, which will consist of 10 members in addition to any outside directors as may be required. Under the terms of the agreement, we and Elta will be able to nominate a number of directors on a pro rata basis based on the number of shares held at such time by us and Elta. If outside directors are required by law or stock exchange rules, we will consult with Elta to determine which outside directors are to be recommended by the board of directors. We and Elta may each oppose the appointment of an outside director proposed by the board of director for reasonable cause only and must provided reasoned notice within 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 liability. This provision will expire on the closing date of an initial public offering of shares of Elisra.

Exchange Controls

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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.

Recent Israeli Tax Reforms

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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 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 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, with respect to foreign residents, to the increase in the currency in which they purchased shares) between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the

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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) (subject to a necessary determination by the Israeli Minister of Finance) Israeli companies publicly traded. 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 on the TASE, 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 States

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(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

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Pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "U.S.-Israel Tax Treaty"), which became effective as of January 1, 1995, the sale, exchange or disposition of ADSs or ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and who is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty ("Treaty U.S. Resident") will generally not be subject to Israeli capital gains tax unless such Treaty U.S. Resident held, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions. A sale, exchange or disposition of ADSs or ordinary shares by a Treaty U.S. Resident who held, directly or indirectly, shares representing 10% or more of our voting power at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

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

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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:

- 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

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a year in which you elect to do so with respect to all foreign income taxes.

Dispositions of ADSs

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

Passive Foreign Investment Companies

For U.S. Federal income tax purposes, we will be considered a passive foreign investment company, or PFIC, for any taxable year in which either 75% or more of our gross income is passive income, or at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gain over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. Federal income tax purposes, highly complex rules would apply to U.S. Holders owning ADSs. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

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

- 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

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market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that you included in income with respect to ADSs in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ADSs with respect to which the mark-to-market election is made, is treated as ordinary income or loss.

Based on our income, assets and activities for the year 2002, 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

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

Item 11. 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 2002, 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 5,903 million, of which NIS 4,961 million is dollar-linked and the rest, NIS 942 million, is linked to other currencies (mainly the Brazilian Real).

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Net financial liabilities in foreign currency total NIS 2,727 million, of which total dollar-linked financial liabilities are NIS 2,633 million, and net financial assets linked to other foreign currencies (mainly the Brazilian real) amount to NIS 94 million. A portion of the currency exposure also stems from the export sales included in our consolidated statements, which include NIS 5,257 million - constituting 73% 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 of December 2002 include transactions with financial instruments that serve mainly as a hedge against currency exposure for the subsidiary companies.

We bought dollars in exchange for other currencies in forwards, call options put options, and swaps, totaling NIS 294 million, NIS 393 million, NIS 209 million and NIS 166 million, respectively. At the same time, we had consolidated sales of dollars in exchange for other currencies through forwards, call options, put options, and swaps totaling NIS 235 million, NIS

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313 million, NIS 210 million and NIS 219 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 to interest rates is that each company in our consolidated group manages its own exposure.

In December 2002, our consolidated balance sheet contained loans and other liabilities in foreign currency (mainly in U.S. dollars) totaling NIS 5,903 million, and non-index linked shekel loans totaling NIS 1,211 million. Our consolidated balance sheets contain financial assets in foreign currency (mainly in U.S. dollars) totaling NIS 3,176 million and non-index linked shekel assets totaling NIS 786 million. Our net financial liabilities exposed to LIBOR interest rate fluctuations reached NIS 3,061 million, while our net financial assets exposed to interest rate fluctuations in Israel amounted to NIS 19 million.

Some of our subsidiaries engage in hedge transactions against interest rate fluctuations in amounts totaling NIS 850 million (of which our proportionate share amounts to NIS 616 million).

Our net liabilities exposed to fluctuations in the LIBOR interest rate amount to NIS 3,061 million. Should the LIBOR interest rate rise by 1%, our financing expenses would increase by NIS 30 million.

The net total of our loans exposed to fluctuations in the interest rate in Israel is NIS 19 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, 2002 of approximately NIS 372 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 37 million.

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

Item 12. Description of Securities Other than Equity Securities.

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not Applicable.

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

Use of Proceeds.

Not Applicable.

Item 15. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(c) and 15d-15(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days prior to the filing date of this annual report. Based on such evaluation, our CEO and CFO have concluded that, as of the date of their evaluation, 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.

(b) Changes in Internal Controls

Since the date of their evaluation, there have not been any significant changes in our internal controls or in other factors that could significantly affect internal controls, and we have not identified any significant deficiencies or material weaknesses in our internal controls.

Item 16. [Reserved]

PART III

Item 17. Financial Statements.

See pages F-1 through F-150, incorporated herein by reference.

Item 18. Financial Statements.

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Not Applicable.

Item 19. Exhibits.

Exhibit No. -----	Description -----
1.1	Memorandum of Association of Koor Industries Ltd.*
1.2	Articles of Association of Koor Industries Ltd.*
1.3	Amendments to Articles of Association of Koor Industries Ltd. Pursuant to a General Meeting of Shareholders held on June 1, 2003.***
2.1	Form of Ordinary Share Certificate.*
2.2	Form of Deposit Agreement including Form of American Depositary Receipt.**
4.1	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.***
10.1	Certification of CEO and CFO 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.***

* 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.

*** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Rosh Ha'ayin, State of Israel, on the 14th day of July, 2003.

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KOOR INDUSTRIES LTD.

By: /s/ Jonathan B. Kolber

Jonathan B. Kolber
Chief Executive Officer

CERTIFICATION

I, Jonathan B. Kolber, certify that:

1. I have reviewed this annual report on Form 20-F of Koor Industries Ltd.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in his annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 14, 2003

/s/ Jonathan B. Kolber

Jonathan B. Kolber, Chief Executive Officer

CERTIFICATION

I, Yuval Yanai, certify that:

1. I have reviewed this annual report on Form 20-F of Koor Industries Ltd.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in his annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's

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ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 14, 2003

/s/ Yuval Yanai

Yuval Yanai, Chief Financial Officer

Koor Industries Ltd. (an Israeli Corporation)

Financial Statements as at 31 December 2002

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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) as at December 31, 2002 and 2001, 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, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, including those consolidated by the proportionate consolidation method, whose assets constitute 14.5% and 46 % of the total consolidated assets as at December 31, 2002 and 2001 respectively, and whose revenues constitute 19.6%, 48% and 50% of the total consolidated revenues for the years ended December 31, 2002, 2001 and 2000, respectively. The financial statements of those subsidiaries were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such subsidiaries, is based solely on the said reports of the other auditors. Furthermore, the data included in the financial statements relating to the net asset value, some of the Company's investments 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 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 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, 2002 and 2001 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, 2002, 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. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three-year period ended December 31, 2002 and stockholders' equity as of December 31, 2002 and 2001, to the extent summarized in Note 28 to the consolidated financial statements.

As explained in Note 2B, the above-mentioned financial statements are

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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.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 26, 2003

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Consolidated Balance Sheets as at December 31

In terms of shekels of December 2002

	Note	December 31 2002 NIS thousands	2001
Assets			
Current assets			
Cash and cash equivalents		805,278	857,285
Short-term deposits and investments	4	1,058,434	642,317
Trade receivables	5	2,041,156	2,245,732
Other receivables	6	458,760	*634,173
Assets designated for sale	3B(2)	44,022	283,253
Inventories and work in progress, net of customer advances	7	2,009,614	1,870,536
Total current assets		6,417,264	6,533,296
Investments and long-term receivables			
Investments in affiliates	8	1,061,302	1,438,130
Other investments and receivables	9	582,520	1,156,791
		1,643,822	2,594,921
Fixed assets			
Cost	10	6,315,245	6,070,281
Less - accumulated depreciation		3,115,060	2,888,078
		3,200,185	3,182,203
Intangible assets, deferred tax assets and			

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deferred expenses after amortization	11	2,442,865	1,463,228
		-----	-----
		-----	-----
		13,704,136	13,773,648
		=====	=====

* Reclassified

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Koor Industries Ltd. (An

In terms of shekels of December 2002

	Note	December 31 2002 NIS thousands	2001
	-----	-----	-----
Liabilities and Shareholders Equity			
Current liabilities			
Credits from banks and others	12	2,359,985	1,846,45
Trade payables	13	1,205,914	1,364,31
Other payables	14	1,421,245	*1,128,75
Customer advances, net of work in progress	7	234,270	298,05
		-----	-----
Total current liabilities		5,221,414	4,637,58
		-----	-----
Long-term liabilities			
Net of current maturities:	15,21		
Bank loans		3,911,093	4,605,36
Other loans		106,717	110,02
Convertible debentures		405,141	314,23
Customer advances		267,948	73,64
Deferred taxes	16F	212,469	196,78
Liability for employee severance benefits, net	17	261,228	204,10
		-----	-----
Total long-term liabilities		5,164,596	5,504,14
		-----	-----
Contingent liabilities and commitments	18		
Minority Interest		1,557,774	1,393,90
		-----	-----
Shareholders' Equity	20	1,760,352	2,238,01
		-----	-----

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13,704,136
=====

13,773,64
=====

March 26, 2003

Jonathan Kolber
Chief Executive Officer

Ron Feinstein
Member of the Board of Directors

* Reclassified

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 2002

	Note	December 31 2002 NIS thousands	2001
	-----	-----	-----
Assets			
Current assets			
Cash and cash equivalents		25,267	62,53
Short-term deposits and investments	4	877,255	507,92
Short-term loans and current maturities of loans to investee companies		100,868	70,50
Receivables:			
Investee companies		21,848	15,54
Others	6	50,103	15,85
Assets designated for sale	3B(2)	44,022	
Total current assets		----- 1,119,363	----- 672,36
Investments and long-term receivables			
Investments in investees	8	3,716,653	4,773,36
Other investments and receivables	9	57,106	589,68
		----- 3,773,759	----- 5,363,04
Fixed assets			
Cost	10	43,065	43,75
Less - accumulated depreciation		6,263	5,17
		----- 36,802	----- 38,58

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4,929,924

=====

6,073,99

=====

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Koor Industries Ltd. (An

 In terms of shekels of December 2002

	Note	December 31 2002 NIS thousands	2001
	-----	-----	-----
Liabilities and Shareholders' Equity			
Current liabilities			
Credit from banks and others	12	800,964	409,
Trade payables		1,282	
Other payables:			
Investee companies		167,548	422,
Others	14	79,562	66,
Total current liabilities		----- 1,049,356	----- 899,
Long-term liabilities			
Net of current maturities:	15, 21		
Bank loans		2,111,673	2,804,
Other loans		-	90,
Convertible debentures		-	39,
Liability for employee severance benefits, net	17	8,543	2,
Total long-term liabilities		----- 2,120,216	----- 2,936,
Contingent liabilities and commitments	18		
Shareholders' equity	20	1,760,352	2,238,
		-----	-----
		4,929,924	6,073,
		=====	=====

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March 26, 2003

Jonathan Kolber
Chief Executive Officer

Ron Feinstein
Member of the Board of Directors

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

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Koor Industries Ltd. (An

Consolidated Statements of Operations

In terms of shekels of December 2002

	Note	Year ended December 31		
		2002	2001	2000
		NIS thousands		
Revenue from sales and services	23A	7,236,193	7,606,807	8,451,29
Cost of sales and services	23B	5,417,908	5,876,457	6,316,28
Gross profit		1,818,285	1,730,350	2,135,01
Selling and marketing expenses	23C	830,431	830,761	834,35
General and administrative expenses	23D	498,771	534,266	573,44
Operating earnings		489,083	365,323	727,21
Financing expenses, net	23E	400,177	440,745	329,25
Other income (expenses), net	23F	88,906	(75,422)	397,95
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	3B(1)	5,936	(634,623)	171,26
Earnings (loss) before income tax		(398,411)	-	
Income tax	16G	(303,569)	(710,045)	569,22
Group's equity in the operating results of affiliates, net	23G	159,998	39,576	164,66
Minority interest in subsidiaries, net		(463,567)	(749,621)	404,55
		(256,934)	(1,930,923)	(291,60
		(720,501)	(2,680,544)	112,95
		(61,203)	8,528	(55,14

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Net earnings (loss) from continuing activities		(781,704)	(2,672,016)	57,81
Result of discontinued activities, net	24H	-	(29,841)	231,28
Net earnings (loss) for the year		(781,704)	(2,701,857)	289,09
		NIS	NIS	NI
Basic earnings (loss) per NIS 1 par value of ordinary shares:				
Continuing activities	26	(51,518)	(175,924)	3,75
Discontinued activities		-	(1,965)	15,03
		(51,518)	(177,889)	18,79
Diluted earnings (loss) per NIS 1 par value of ordinary shares:				
Continuing activities	26	(51,518)	(175,924)	3,74
Discontinued activities		-	(1,965)	14,96
		(51,518)	(177,889)	18,70

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

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Koor Industries Ltd. (An

Company Statements of Operations

In terms of shekels of December 2002

	Note	Year ended December 31		
		2002	2001	2000
		NIS thousands		
Income				
Management services from subsidiaries		36,257	34,817	42,735
Others, net	23F	372,452	-	10,402
Total income		408,709	34,817	53,137

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Expenses				
General and administrative expenses	23D	49,061	42,873	66,527
Others, net	23F	-	52,899	
Financing, net	23E	203,647	202,261	153,247
		-----	-----	-----
Total expenses		252,708	298,033	219,774
		-----	-----	-----
Earnings (loss) before income tax		156,001	(263,216)	(166,637)
Income tax		3,793	-	
		-----	-----	-----
Earnings (loss) after income tax		159,794	(263,216)	(166,637)
Koor's equity in the operating results of investee companies, net	23G	(941,498)	(2,408,800)	224,448
Results of discontinued activities, net	23H	-	(29,841)	231,287
		-----	-----	-----
Net earnings (loss) for the year		(781,704)	(2,701,857)	289,098
		=====	=====	=====
		NIS	NIS	NIS
		-----	-----	-----
Basic earnings (loss) per NIS 1 par value of ordinary shares :	26			
Continuing activities		(51,518)	(175,924)	3,758
Discontinued activities		-	(1,965)	15,034
		-----	-----	-----
		(51,518)	(177,889)	18,792
		=====	=====	=====
Diluted earnings (loss) per NIS 1 par value of ordinary shares:	26			
Continuing activities		(51,518)	(175,924)	3,740
Discontinued activities		-	(1,965)	14,965
		-----	-----	-----
		(51,518)	(177,889)	18,705
		=====	=====	=====

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

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Koor Industries Ltd. (An

Statement of Shareholders' Equity

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In terms of shekels of December 2002

	Number of ordinary shares (1)	Share capital	C re
		NIS thousand	
Balance at January 1, 2000	15,730,971	575,361	2,61
Changes during 2000:			
Net income	-	-	
Exercise of stock options granted to Israeli banks	-	-	
Interim dividend	-	-	
Acquisition of "treasury stock"	(538,592)	-	
Premium received in respect of issuance of option exercisable for company shares	-	-	
A capital reserve in respect of conversion of notes in affiliate by a controlling shareholder	-	-	
Erosion of dividend proposed in 2000	-	-	
Cumulative foreign currency translation adjustments, net	-	-	
Dividend from company shares held by subsidiaries	-	-	
Balance at 31 December, 2000	<u>15,192,379</u>	<u>575,361</u>	<u>2,61</u>

Chart continued--

	Cumulative foreign currency translation adjustments	Retained earnings
Balance at January 1, 2000	(623,054)	2,230,452
Changes during 2000:		
Net income	-	289,098
Exercise of stock options granted to Israeli banks	-	-
Interim dividend	-	(63,206)
Acquisition of "treasury stock"	-	-
Premium received in respect of issuance of option exercisable for company shares	-	-
A capital reserve in respect of conversion of notes in affiliate by a controlling shareholder	-	-
Erosion of dividend proposed in 2000	-	(1,231)
Cumulative foreign currency translation adjustments, net	(92,950)	-
Dividend from company shares held by subsidiaries	-	696
Balance at 31 December, 2000	<u>(716,004)</u>	<u>2,455,809</u>

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* 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 Ltd. (An

Statement of Shareholders' Equity

In terms of shekels of December 2002

	Number of ordinary shares (1)	Share capital	C re
	-----	-----	-----
Balance at December 31, 2000	15,192,379	575,361	2,61
Changes during 2001:			
Net loss	-	-	
Exercise of stock options granted to Israeli banks	-	-	
Expiring options granted to Israeli banks	(23,495)	-	
Cumulative foreign currency translation adjustments, net	-	-	
Balance at 31 December, 2001	15,168,884	575,361	2,61
Changes during 2002:			
Net loss	-	-	
Exercise of stock options to employees	4,493	* -	
Cumulative foreign currency translation adjustments, net	-	-	
Provision for decline in value of autonomous investee	-	-	
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	-	-	
Balance at December 31, 2002	15,173,377	575,361	2,61
	=====	=====	=====

Chart continued --

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	Cumulative foreign currency translation adjustments	Retained earnings (deficit)
	-----	-----
Balance at December 31, 2000	(716,004)	2,455,809
Changes during 2001:		
Net loss	-	(2,701,857)
Exercise of stock options granted to Israeli banks	-	-
Expiring options granted to Israeli banks	-	-
Cumulative foreign currency translation adjustments, net	289,032	-
	-----	-----
Balance at 31 December, 2001	(426,972)	(246,048)
Changes during 2002:		
Net loss	-	(781,704)
Exercise of stock options to employees	-	-
Cumulative foreign currency translation adjustments, net	12,779	-
Provision for decline in value of autonomous investee	(107,144)	-
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	398,411	-
	-----	-----
Balance at December 31, 2002	(122,926)	(1,027,752)
	=====	=====

* 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 Ltd. (An

Statement of Shareholders' Equity

Convenience translation into US Dollars (Note 2B)

	Number of ordinary shares (1)	US\$ t
	-----	-----
Balance at January 1, 2002	15,168,884	1

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Changes during 2002:		
Net loss	-	
Exercise of stock options to employees	4,493	
Cumulative foreign currency translation adjustments, net	-	
Provision for decline in value of autonomous investee	-	
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	-	
	-----	-----
Balance at 31 December, 2002	15,173,377	1
	=====	=====

Chart continued --

	Company shares held by the company and subsidiaries	Cumulative foreign currency translation
	-----	-----
		US\$ t
	-----	-----
Balance at January 1, 2002	(58,622)	(90,137)
Changes during 2002:		
Net loss	-	-
Exercise of stock options to employees	-	-
Cumulative foreign currency translation adjustments, net	-	2,697
Provision for decline in value of autonomous investee	-	(22,619)
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	-	84,106
	-----	-----
Balance at 31 December, 2002	(58,622)	(25,953)
	=====	=====

* 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. (An

Consolidated Statement of Cash Flows

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In terms of shekels of December 2002

	Year ended December 31,	
	2002	2001
	NIS thousands	
Cash flows generated by operating activities:		
Net earnings (loss) for the year	(781,704)	(2,701,857)
Adjustments to reconcile net earnings to net cash flows generated by operating activities (A)	1,217,367	3,155,440
Net cash inflow generated by operating activities	435,663	453,583
Cash flows generated by investing activities:		
Purchase of fixed assets	(265,116)	(469,771)
Investment grants in respect of fixed assets	7,729	42,372
Amounts charged to intangible assets and deferred expenses	(826,223)	(586,618)
Additional investments in subsidiaries	(2,856)	(68,373)
Payment of liabilities for purchase of consolidated companies	-	-
Acquisition of subsidiaries (B)	(94,528)	-
Investments in affiliates	(13,914)	(47,158)
Investments in loans to affiliates	(1,432)	(1,536)
Repayment of loans from affiliates	4	326
Proceeds from realization of investments in formerly consolidated subsidiaries, net of cash in those subsidiaries at the time they ceased being consolidated (C)	-	(144,842)
Proceeds from realization of activities (D)	-	36,058
Purchase of consolidated companies' shares by their consolidated companies	-	(70,260)
Proceeds from realization of activity of prior year	12,077	29,013
Proceeds from disposal of investments in investee companies	493,660	180,803
Proceeds from sale of fixed assets	320,436	82,792
Investment in venture capital companies	(47,928)	(156,585)
Decrease (increase) in other investments	(59,529)	16,643
(Increase) decrease in short-term deposits and investments, net	214,854	53,222
Net cash inflow (outflow) generated by investing activities	(262,766)	(1,103,914)

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

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Koor Industries Ltd. (An

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2002

	Year ended December 31		
	2002	2001	2000
	NIS thousands		
Cash flows generated by financing activities:			
Proceeds from exercise of stock options granted to Israeli banks	-	150	
Acquisition of "treasury stock"	-	-	(219,000)
Premium received in respect of issuance of options exercisable for Company shares	-	-	2,000
Dividend paid	-	-	(242,000)
Issuance of shares to minority interest in subsidiaries	2,984	58,851	52,000
Issue of preferred shares to minority interest of subsidiary	-	61,998	66,000
Dividend paid to minority interest in subsidiaries	(27,625)	(22,344)	(13,000)
Payment of suppliers credit received for the purchase of fixed assets	(13,264)	-	
Purchase of convertible debentures of subsidiary by its subsidiary in the market	(15,428)	-	
Issuance of convertible debentures in subsidiary	138,827	262,403	
Proceeds from principal of long-term loans and other long-term liabilities	1,581,061	2,730,662	543,000
Repayment of long-term loans, debentures and other long-term liabilities	(1,911,046)	(1,958,028)	(1,173,000)
Credit from banks and others, net	16,473	(730,210)	(236,000)
Net cash inflow (outflow) generated by financing activities	(228,018)	403,482	(1,220,000)
Translation differences in respect of cash balances of autonomous foreign investee companies	3,114	57,598	(14,000)
Decrease in cash and cash equivalents	(52,007)	(189,251)	(518,000)
Balance of cash and cash equivalents at beginning of year	857,285	1,046,536	1,564,000
Balance of cash and cash equivalents at end of year	805,278	857,285	1,046,000

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

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Koor Industries Ltd. (An

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2002

	Year ended December 31		
	2002	2001	2000
	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	61,203	(9,255)	17,200
Equity in operating results of affiliates, in addition to dividend received therefrom	256,934	1,930,923	318,000
Depreciation and amortization	431,718	425,260	403,000
Deferred taxes, net	81,824	(37,946)	137,000
Increase (decrease) in liabilities in respect of employee severance benefits, net	53,140	(113,590)	44,000
Net capital losses (gains) from realization:			
Fixed assets	(23,522)	6,202	(7,000)
Investments in formerly consolidated subsidiaries	-	5,900	(551,000)
Loss (profit) from realization of activities	-	28,194	(300,000)
Investments in investee companies	(348,920)	54,641	(29,000)
Translation differences of autonomous investee in voluntary liquidation	398,411	-	-
Inflationary erosion of principal of long-term loans and other liabilities	57,575	136,076	(85,000)
Inflationary (linkage) erosion of principal of credit from banks and others	(11,223)	7,635	(5,000)
Inflationary erosion of value of investments, deposits and loans receivable	(20,128)	(33,145)	27,000
Changes in value of assets and investments	146,155	182,821	71,000
	1,083,167	2,583,716	39,000
	=====	=====	=====

The accompanying notes are an integral part of the financial statements

Koor Industries Ltd. (An

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2002

	Year ended Decem	
	2002	2001
	NIS thousa	
A. Adjustments to reconcile net earnings to cash flows generated by operating activities (cont'd)		
Changes in operating asset and liability items:		
Decrease in trade receivables and other receivables (after taking into account non-current receivables)	289,824	685,081
Decrease (increase) in inventories, work in progress and customer advances (including long-term customer advances and deposits)	53,255	(33,030)
Increase (decrease) in trade payables and other payables	(208,879)	(80,327)
	134,200	571,724
	1,217,367	3,155,440
B. Acquisition of subsidiaries		
Assets and liabilities of the subsidiaries at date of acquisition:		
Working capital deficit (surplus), excluding cash and cash equivalents	6,641	-
Fixed assets and investments	(37,134)	-
Long-term liabilities	10,478	-
Contingent liability	18,872	-
Minority interest in subsidiaries	-	-
Excess of cost over net asset value upon acquisition	(93,385)	-
Investment in affiliates	-	-
	(94,528)	-

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The accompanying notes are an integral part of the financial statements

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Koor Industries Ltd. (An

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2002

	Year ended Decem	
	2002	2001
	NIS thousa	
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 surplus (deficit), excluding cash and cash equivalents	-	(258,403)
Fixed assets and investments	-	28,219
Long-term liabilities	-	(54,904)
Minority interest in the subsidiary as at date of the sale	-	(60,659)
Investments in affiliated companies, net	-	(2,347)
Consideration not yet received from consolidation of companies	-	(13,012)
Deficiency in capital of subsidiary without guarantee	-	222,164
Capital gain (loss) on sale of investments in subsidiaries	-	(5,900)
	-	(144,842)
	=====	=====
D. Proceeds from realization of activities		
Working capital surplus excluding cash and cash equivalents	-	3,709
Fixed assets	-	69,472
Accrued income - long-term		
Realization proceeds receivable	-	(8,929)
Capital gain (loss) from realization of activities	-	(28,194)
	-	36,058
	=====	=====

Consolidated Statements of Cash Flows (cont'd)

In terms of shekels of December 2002

	Year ended December 31		
	2002	2001	2000
	NIS thousands		
E. Non-cash transactions:			
Purchase of fixed assets	10,885	25,563	45,876
Purchase of other assets	250,649	-	986
Proceeds from sale of fixed assets, in formerly consolidated subsidiaries and realization of activities	-	48,911	34,365
Proposed dividend to minority shareholders	-	5,804	-
Investment in subsidiaries	-	2,836	58,991
Proceeds from realization of affiliated company in marketable securities	-	-	29,068
Purchase of fixed and other assets and inventory in consideration of issuance subsidiary shares to minority	29,234	-	-
Contingent liability from consolidated subsidiary	18,872	-	-

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

Company Statements of Cash Flows

In terms of shekels of December 2002

	Year ended December 31		
	2002	2001	
	NIS thousands		
Cash flows generated by operating activities:			
Net income (loss) for the year	(781,704)	(2,701,857)	28
Adjustments to reconcile net income to net cash flows generated by operating activities (A)	316,277	2,411,496	(12)
Net cash inflow (outflow) generated by operating activities	(465,427)	(290,361)	16
Cash flows generated by investing activities:			
Investee companies - acquisition of shares, payments on account of shares, loans granted and non-current accounts	6,371	(191,584)	(56)
Purchase of fixed assets	(110)	(393)	
Decrease (increase) in investments and other receivables, net	(55,146)	10,805	(17)
Proceeds from sale of fixed assets	278,017	125	
Proceeds from realization of investments in investee companies, net	463,489	181,065	1,08
Investment in short-term deposits and investments, net	201,239	(4,223)	(19)
Net cash inflow (outflow) generated by investing activities	893,860	(4,205)	15
Cash flows generated by financing activities:			
Proceeds from exercise of stock options	-	150	
Premium received in respect of issuance of options exercisable for company shares	-	-	
Acquisition of "treasury stock"	-	-	(21)
Dividend paid	-	-	(24)
Receipt of long-term loans and other long-term liabilities	585,458	1,749,784	10
Payments of long-term loans and other long-term liabilities	(900,158)	(1,442,250)	(77)
Credit from banks and others, net	(151,001)	24,873	4
Net cash inflow (outflow) generated by financing activities	(465,701)	332,557	(1,08)
Increase (decrease) in cash and cash equivalents	(37,268)	37,991	(75)
Balance of cash and cash equivalents at beginning of year	62,535	24,544	78

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Balance of cash and cash equivalents at end of year	25,267 =====	62,535 =====	2 =====
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The accompanying notes are an integral part of the financial statements.

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Koor Industries Ltd. (An

Company Statements of Cash Flows (cont'd)

In terms of shekels of December 2002

	Year ended December 31		
	2002	2001	
	NIS thousands		
(A) Adjustments to reconcile net earnings to cash flows generated by operating activities:			
Income and expenses not involving cash flows:			
Equity in operating results of investee companies in addition, net of dividend received therefrom	970,712	2,415,377	2
Depreciation and amortization	2,955	2,366	
Deferred taxes, net	(44,639)	-	1
Increase (decrease) in liability in respect of employee severance benefits, net	5,751	(780)	
Net capital losses (gains) from realization:			
Fixed assets	(29,750)	(2)	
Investment in investee companies	(343,088)	54,757	(4
Increase in value of deposits and other erosions, net	(11,089)	(21,055)	
Exchange rate differences and erosion of long-term loans and other liabilities	29,642	112,838	(
Erosion (linkage) of loans from banks and others	5,152	11,065	
Adjustment in value of investments/assets	10,230	-	(
	-----	-----	---
	595,876	2,574,566	(1
Changes in operating assets and liability items:			
Decrease (increase) in current accounts of investee companies, net	(275,232)	(145,308)	
Decrease (increase) in receivables	(18,466)	9,052	
Increase (decrease) in other payables	14,099	(26,814)	(

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	(279,599)	(163,070)	
	316,277	2,411,496	(1
(B) Significant non-cash transactions:			
Dividend in kind from investee company	284,756	-	
Proceeds from realization of affiliated company in capital note	27,899	-	
Investments in investee companies against current account of investee company, dividend and capital note	-	1,023,287	
Purchase of company shares from investee company	-	24,027	

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

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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:

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1. The Company - Koor Industries Ltd. (hereinafter - "Koor" or the "Company").
2. Subsidiaries - companies, including partnership companies, 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 in Koor's financial statements.
4. Affiliate companies - companies in which Koor has voting rights which gives Koor a significant influence over the operating and financial policies of these companies, and which are not fully or proportionately consolidated. Such companies are included on the equity basis.
5. Investee companies - subsidiaries, proportionately consolidated companies or affiliates.
6. Other companies - companies in which the investment does not give the Company significant influence are included by the cost method.
7. Related parties - as defined in Paragraph (1) to Definition "related parties" in Item 1 to Securities law, including related parties as defined in Opinion 29 of the Institute of Certified Public Accountants in Israel - (hereinafter - "ICPAI").
8. Controlling shareholders - as defined in the Israeli Securities Regulations (Presenting Transactions between a Company and its Controlling Shareholder in Financial Statements), 1996.

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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):

9. Venture capital fund - as defined in Standard No. 1 of Israel Accounting Standards Board.
10. Consumer Price Index - The Consumer Price Index (hereinafter - "CPI") published by the Central Bureau of Statistics.
11. Dollar - United States Dollar (hereinafter - "Dollar").

B. Adjusted financial statements:

1. a) The Company prepared the financial statements on the basis of historical cost, adjusted for changes in the general purchasing power of the shekel.
- b) The adjustments of the financial statements of the Koor Group is in accordance with the opinions of the ICPAI and is based on the

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accounting records which are kept in nominal NIS or in other functional currencies.

- c) 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. The term "cost" in these financial statements means cost in adjusted NIS.
 - d) All comparative data for earlier periods (including the amounts of the monetary items) are stated adjusted to the CPI of the end of the present report period.
2. The following principles of adjustment relate to those companies of the Koor Group whose financial statements were adjusted on the basis of the CPI:
- a) Non-monetary items (mainly fixed assets, inventory and work in progress from related customer advances, intangible assets and deferred expenses), have been adjusted on the basis of the CPI at the time when the transactions was carried out.
 - b) Investments in investee companies and the equity in their results of operations for the current year, as well as the minority interest in subsidiaries and their 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 amounts in the balance sheet reflect current or realizable values at balance sheet date) are included in the adjusted balance sheet as at December 31, 2002, at a value similar to their nominal value at that date (comparative figures are also adjusted in terms of shekels of December 2002).

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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):

- d) The components of the statement of operations (except for financing), relating to transactions carried out during the year - sales, purchases, labor costs, etc., have been adjusted according to the CPI at the time the related transactions were carried out. The erosion of monetary balances relating to the aforesaid transactions has been included in the financing item.
- e) The statement of operations components deriving from non-monetary items (such as depreciation and amortization, changes in inventories, deferred expenses and prepaid income), and components relating to the provisions included in the balance sheet (provisions for severance pay, provision for vacation pay and other items), were determined according to the changes in the balances of the relevant balance sheet items after taking into account the respective cash flows.

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f) The financing item, 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 (see also item 2U as follows).

g) Income tax:
Current taxes consist of Payments on Account during the year in addition to amounts due to be paid on the balance sheet date (or less amounts refundable as at the balance sheet date). Payments on Account were adjusted according to the CPI on the date of making the payment, while the receivable amounts (or being demanded for refund) were included without adjustment.

Current taxes also include the expense deriving from the erosion of the payment on account of taxes, from the date of payment until the end of the year.

h) In 2002, the Israel Securities Regulations concerning a dividend proposed or announced after the balance sheet date were amended in accordance with Accounting Standard No. 7 - Post balance sheet date events. Under the regulations, the liability relating to a dividend proposed or announced after the balance sheet date, is to be reflected in the financial statements only in the period of the announcement.

A dividend announced and actually paid in the reporting year will be adjusted on the basis of the CPI at the time of its actual payment; a dividend announced/proposed in the report year and not yet paid by the balance sheet date, is included without adjustment. The amount proposed as "erosion of a dividend announcement in the preceding year" reflects the erosion in the real value of the dividend which was announced/proposed in the preceding year and actually paid in the account 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):

3. Adjustment of financial statements on the basis of the exchange rate of the Dollar:

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 requirements of Interpretation No. 8 to Opinion 36 of the ICPAI, at each balance sheet date, the figures of the balance sheet and the statements of operations for the year then ended are translated into shekels based on the exchange rate prevailing of the foreign currency in which the financial statements of those companies were prepared at the end of the year. Balance sheet items

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as based on the beginning of the year, and changes in equity during the year, were translated according to the exchange rate of NIS at the beginning of the year or at the date of the change, respectively, and then adjusted to the changes in the CPI until December 2002. This treatment is relevant both to the autonomous foreign investee companies and to the 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, net".

C. Principles of consolidation:

1. The consolidated financial statements include the accounts of Koor, all its subsidiaries and proportionately consolidated companies.
2. Consolidation of financial statements of proportionately consolidated companies:

In accordance with generally accepted accounting principles in Israel, the financial statements of companies that are jointly controlled, are included in Koor's consolidated financial statements according to the proportionate consolidation method.

3. 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 at equal annual rates over 10 years commencing from the acquisition date, except for goodwill arising from the acquisition of some subsidiaries, which is amortized over a period of 20 years. The amortization of goodwill is included in "other expenses" item.

Differences resulting from changes in holding rates are charged to the statement of operations when they occur, except for changes deriving from the exchange of homogenous assets, which are debited / credited to the goodwill and are not charged to the statement of operations.

4. Excess cost of assets and liabilities is charged to the relevant items in the balance sheet.
5. Significant inter-company transactions and balances items are eliminated upon consolidation.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

C. Principles of consolidation: (cont'd)

6. Koor's shares, which were purchased by the Company and subsidiaries,

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are accounted for as treasury stock.

- 7. To the extent that 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 percentage of Koor's holdings of such subsidiaries is expected to decrease upon their conversion or exercise, following which Koor will incur a loss, an appropriate provision is included for such an anticipated loss.
- 8. 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 uniform accounting principles adopted by Koor's Group.

D. Use of estimates:

The financial statements, which were prepared in accordance with generally accepted accounting principles, include numbers based on estimates and assumptions of the Management, which take the factor of materiality into consideration, and on the Opinion dealing with assets and contingent liabilities, as well as income and expenses in the reported period. Actual results may differ from such estimates.

E. Cash equivalents:

Cash equivalents are considered by the Company to be highly liquid investments and include short-term bank deposits with an original maturity of three months or less and which are not limited.

F. Marketable Securities:

(1) Marketable securities

Investments in marketable securities designated for sale in the short term are included at stock market value as at the balance sheet date. Investments in marketable securities, which are permanent investments, are included at cost (debentures - including accrued interest), so 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

Included at the cost, not higher, in management's opinion than the realization value (see also section (3) below).

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

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F. Marketable Securities: (cont'd)

(3) Decrease in investment value

From time to time the Company reviews its permanent investments in other companies to identify if there has been a decrease in their value, which is not of a temporary nature. Such a review will be carried out where there are signs that the value of permanent investments has been harmed, including a drop in stock market prices, the investee company's business, the segment in which the investee company operates and other parameters. The provisions for adjustment of the value of these investments are charged to the statement of operations, and follow the Management's assessment, which took into account all the relevant factors, which are not of a temporary nature.

G. Provision for doubtful debts:

The financial statements include provisions for doubtful debts, which Management believes fairly reflect the loss inherent in debts whose collection is doubtful.

The provision is determined partly in respect to specific debts whose collection is doubtful, and partly as a percentage of the balance of trade receivables.

In addition, the financial statements also include such specific provisions for doubtful debts in respect of customer debts included in the subordinated capital note received as part of the securitization transaction.

H. Inventory:

Inventory is included at the lower of cost or market value. Cost is determined as follows: Raw materials, auxiliary materials and spare parts - at average cost 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.

I. Work in progress:

Work in progress is valued at direct production cost, in addition to allocated indirect expenses, all of which are on an average basis. The cost of work in progress included under long-term contracts also includes allocation of general expenses, as well as interest at an average rate for external financing. Interest is calculated in respect of the excess of the cost of work in progress over customer advances received for each order or in respect of the excess of customer advances received for each order over the cost of work in progress.

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Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

I. Work in progress: (cont'd)

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

Work in progress and customer advances in respect to long-term contracts include amounts in respect of contracts the execution of which exceeds over one year. Where a loss is anticipated from the contract, a provision is made for the entire anticipated loss up to completion of the work.

J. Venture Capital Investments:

Venture Capital Investments is investment in a corporation whose principal business is research or development and at least 90% of its funding comes from owners' capital, support from State authorities or research grants.

The holdings of venture capital funds in venture capital investments are represented by their cost after provisions for drop in value, if a drop in value, of a permanent nature, occurs.

K. Investments in investee companies:

The investments in investee companies other than consolidated companies (consolidated balance sheet - investments in affiliates) are presented using 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 a subsidiary, which is amortized over 20 years, that 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 decrease in their value which is not of a temporary nature. Such a review will be carried out where there are signs that the value of permanent investments has been harmed, including a drop in stock market prices, the investee company's sequential loss, the segment in which the investee company operates, the value of the goodwill aggregated in the investment and other parameters. The provisions for adjustment of the value of these investments are charged to the statement of operations, and follow the Management's assessment, which took into account all the relevant factors that are not of a temporary nature.

L. Long-term receivables and liabilities:

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

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

M. Fixed assets:

1. The assets are included at cost, after deduction of related investment grants.
2. Cost includes interest capitalized during the period of construction of the assets, calculated according to the interest rates applicable to the sources used to finance the investment.
3. Improvements are charged to the cost of assets, while maintenance and repair expenses are charged to the statement of operations as incurred, and are amortized over the period of the lease (including the option which the Company has to extend the lease), which does not exceed the economic life of the asset.
4. Depreciation is computed using the straight-line method, on the basis of the estimated useful lives of the assets.

The annual depreciation rates used are as follows:

	%	

Buildings and leasehold rights	1-10	(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%)

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, some over five years and some over nine years.
3. Intangible assets in the purchase of goods - are presented 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, taking into account the dates of redemption.
5. See Note 2C(3) regarding goodwill deriving from the acquisition of companies.

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

O. Convertible securities:

1. Debentures not expected to be converted are included at their liability value as at the balance sheet date, in accordance with the directives of Opinion 53 of the ICPAI, and are stated under long term liabilities. Debentures expected to be converted are included between the long term liabilities item and the shareholders' equity item, according to the liability value or the capital value, whichever is the higher.
2. In accordance with Opinions 48 and 53 of the ICPAI, the provision for anticipated loss on a decline, in the percentage of holdings in investee companies, is included in the item "Minority interest in subsidiaries", in the consolidated balance sheet and in the item "Investment in investee companies" in the Company balance sheet.

P. Deferred taxes:

1. Deferred taxes are calculated as the temporary differences between the amounts included in the adjusted financial statements and the amount be considered 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 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 date of approval of the financial statements. The changes between the said balances during the current year is included in the statement of operations.
3. Taxes that would have applied in the event of exercise of investments in subsidiaries the sale of which is not expected in the foreseeable future are not included in deferred taxes.

Deferred taxes for taxes to applicable on profits distributed by investees, in accordance with Company's policy of the company not to distribute taxable dividends in the foreseeable future were not created.

Q. Revenue recognition:

1. Work in progress:

Revenues and costs related to work in progress under long-term contracts are recognized based on the percentage of completion method if the Company is capable of reliably estimating the revenues and costs required till 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 with the addition of profit at a fixed rate) are recognized when the costs are incurred.

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

Q. Revenue recognition: (cont'd)

1. Work in progress: (cont'd)

Periodic reporting on revenues and costs from work in progress covers all cycle periods, including those where it is not possible to estimate anticipated profits at the reporting stage, however, it may be included that the refund of costs already incurred is anticipated. In such circumstances, all the costs incurred are attributed to the statement of operations as against revenues in the amount of such costs ("Zero interval 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, the sales are recognized after performing the work and passing acceptance tests, as defined in the product delivery contract.

R. Sale of customer debts:

The Company recognizes sale of customer debts as a sale only in the instance where the control and the risks of the financial asset are transferred to the purchaser.

S. Presentation of transactions between the Company and the controlling shareholder:

Transactions between the Company and the controlling shareholder of the Company are included in accordance with the Securities Regulations (Presenting Transactions Between a Company and its Controlling Shareholder in Financial Statements), 1996. Accordingly, the difference between the price paid to the controlling shareholder for the sale of an asset and the book value of the asset in the books of the controlling shareholder, is included in the item Shareholders' equity of the Company. In addition, the amount of the loan erosion without interest and linkage differentials and without a repayment date, received from the controlling shareholder and which the parties do not intend to repay, is included in the item Shareholders' equity.

T. Research and development:

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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 work in progress, and are included in the statement of operations as part of the recognition in results from such work in progress.

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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 Option contracts and forward transactions that are designated 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 the exchange rates of foreign currency changes in the interest and changes in the CPI.

The results of financial derivatives which are designed 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.

The transactions which are not classified as hedging transactions, balance in their fair value. Changes in the fair value are included in the statement of operation.

The fair value of derivative financial instruments is established according to their market values, and when such do not exist, according to the evaluation model.

V. Earnings per share:

Earnings per share data are computed in accordance with Opinion 55 of the ICPAI.

W. Segment reporting:

Segment reporting is presented in accordance with Accounting Standard No. 11, which requires the inclusion of information in respect of business sectors and geographical sectors, and also includes detailed guidelines for identification of the business and geographical segments.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

X. Data regarding the CPI and the exchange rate of foreign currency:

	Israeli CPI*	Exchange rate of one Dollar
	Points	NIS
For the year ended:		
December 2002	182.01	4.737
December 2001	170.91	4.416
December 2000	168.53	4.041
	%	%
Changes during:		
2002	6.5	7.3
2001	1.4	9.3
2000	0.0	(2.7)
	%	
Real increase (decrease) in the CPI relative to the exchange rate of the Dollar during the year:		
2002	(0.8)	
2001	(7.9)	
	2.7	

(* According to the CPI in respect 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, as published by Bank of Israel near the balance sheet date.

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

Koor Industries Ltd. (An Israeli Corporation)

Note 2 - Significant Accounting Policies (cont'd)

Y. Influence of new accounting standards prior to their application:

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

a. Accounting Standard No. 12 - "Discontinuance of adjusting 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 commence starting January 1, 2003.

In December 2002, the Israel Accounting Standard Board published Standard No. 17, which determines that the implementation of Standard No. 12 will be postponed to January 1, 2004. Accordingly, the adjustments 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 Association of Certified Public Accountant in Israel (ICPAI). The adjusted amounts included in the financial 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 is liable to have a material effect on the reported business results of the Company.

The extent depends on the rate of inflation, the composition of its assets and the financing resources of the Company.

b. Accounting Standard No. 13 - "The effects of changes in foreign exchange rates". The standard deals with the translation of foreign currency transactions and the translation of financial statements of overseas operations, for the purpose of their integration in the financial statements of the reporting corporation. The Standard replaces the instructions in Clarifications 8 and 9 to Opinion No. 36 which are null upon Accounting Standard No. 12 coming into effect as mentioned above. The extent of its effect depends on the rate of inflation and changes in exchange rates.

2. Accounting Standard No. 14 - In August 2002 the Israel Accounting Standard Board published Accounting Standard No. 14 - "Interim Financial Reporting". The Standard determines the minimum content of financial reporting for interim periods, including the disclosure required in the notes, and sets out the accounting principles for recognition and measurement to be applied in financial reporting for interim periods. This Standard will apply to financial statements for periods starting on January 1, 2003.

The restatement of comparative information for an interim period prior to the effective date is not required under the Standard. However, if financial statements include comparative information for an interim period prior to the effective date, contrary to the provisions of the Standard, then the notes to the financial statements must include a description of the main differences between the principles laid down in this Standard and the

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principles by which the comparative information was prepared.

The Company believes that the effect of the new Standard on its results of operations, financial position and cash flows will not be material.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 2 - Significant Accounting Policies (cont'd)

- Y. Influence of new accounting standards prior to their application:
- 3. In February 2003, the Israel Accounting Standards Board published Accounting Standard No. 15 - "Impairment in value of Assets". The Standard provides procedures which a company must apply in order to ensure that its assets in the consolidated balance sheet, are not presented at an amount which is in excess of their recoverable value, which is the higher of the net selling price or the presented value of the estimated future cash flows expected to be derived from use and disposal of the asset. In addition, the Standard provides rules for presentation and disclosure with respect to assets whose value has declined.

The standard, which will apply to the financial statements for periods starting on January 1, 2003, states that in most cases the transition will be by the "from here onwards" method, but a loss due to impairment of assets, in the amount of the difference between the book value as at the date of application of the standard and the value to the company as at the same date, will be charged to the statement of operations under the item "Cumulative effect as at the beginning of the year, of a change in the accounting method" if - and only if - the loss was not recognized in the past and only if the future uncapitalized cash flows, net, exceed the book value. A consolidated company noted in its financial statements that the assessment of the value to the company of one of its assets had not yet been completed, and that the results of the assessment would be liable to decrease the shareholders' equity of the consolidated company. The consolidated company is unable, at this stage, to provide a reliable estimate of the effect. Other than the above, it is the opinion of the Company that the application of the standard is not expected to be material.

Note 3 - Information Regarding Certain Investee Companies

- A. ECI Telecom Ltd. ("ECI") - an affiliated company
 - 1. During 2002, ECI's Board of Directors decided to focus ECI's activities on its core businesses: access networks (Inovia) and transmission systems and optical networks (Enavis, Lightscape). This was followed by a decision to divest Innowave's. ECI recorded in its financial statements a provision of 18 million dollars, reflecting, ECI's management opinion, the anticipated loss resulting from the divestiture based on the contract signed after balance sheet date between ECI and the buyers.

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During the accounting period, ECI recorded a provision of 53 million dollars impairment of intangible assets of Innowave, as well as 6.7 million dollars in respect to the write-off of equipment and assets attributed to the company being sold.

In the fourth quarter of 2002, ECI signed an agreement with external investors for spin-off NGTS operations into a new company, in which ECI would hold 43%. ECI will invest 10 million dollars in the new company. As a result of the transaction, ECI charged a loss of approximately 4 million dollars in its financial statements.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- A. ECI Telecom Ltd. ("ECI") - an affiliated company (cont'd)
2. In the third quarter of 2002, ECI took a 34 million dollar provision for a doubtful debt with respect to a long-term customer debt. The balance of the debt after the provision is 121 million dollars. In addition, ECI included a provision of 18 million dollars for a decrease in the value of its investment in debentures convertible to shares of the parent company of that customer.
3. During the first quarter of 2002, ECI recorded a pre-tax capital gain of approximately 12 million dollars from the sale of 8.5% of ECI's shares and the exercise of stock options.
4. 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 72 million in its financial statements for 2001 in respect of this allotment.
5. In the second quarter of 2001, Koor's Board of Directors gave its approval for the management to make a credit line available to ECI until February 2003 and if needed by ECI, up to a sum of 100 million dollars, on terms which are no less favorable than market terms on the date of making the credit line available. The credit line expired without being utilized.
6. In June 2001, class actions were filed in the name of various shareholders of ECI, against ECI and some of its officers: the former Chairman of the Board (who also serves as Koor's CEO), ECI's CEO and ECI's former CFO. The claims were filed in the name of all the shareholders who had purchased ECI shares between May 2, 2000 and February 14, 2001 ("the Buyers"). The plaintiffs alleged that ECI and said officers defrauded the Buyers, made false representations and published misleading financial statements which harmed the Buyers.

At the preliminary procedural hearing stage the Federal Court

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dismissed the claim against the former Chairman of the Board of the company, but approved the actions as is against the other defendants, i.e. ECI and the other officers.

On May 16, 2002, the parties signed a memorandum of understanding for dismissal of the class action. Under the memorandum of understanding, a fund was established, to which ECI's insurers transferred the settlement amount. It was also agreed that the plaintiffs would cancel their claims against ECI and ECI's officers, without any liability of wrongdoing being attributed to them.

In December 2002 the court approved the arrangement described in the memorandum of understanding.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- A. ECI Telecom Ltd. ("ECI") - an affiliated company (cont'd)
- 7. 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 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 the financial ratios agreed upon in the financing agreement with the banks, and therefore the banks are entitled to demand the immediate repayment of all the loans. Accordingly, long-term loans of approximately 107 million dollars were reclassified as current liabilities. ECI is negotiating for a change in the terms of the original financing agreement, including a change in the financial ratios.

- 8. In the second half of 2000, the world demand for telecommunications products declined, including those of ECI. In view of the continued trend, ECI's management decided, during 2001, to undertake a series of efficiency measures which included, inter alia, the discontinuation of the production and marketing of certain products, termination of development operations in the U.S.A. which were purchased in the second quarter of 2000, and a reduction of manpower by about 2,000 employees. Accordingly, ECI recorded in its financial statements in 2001 a provision of approximately 108 million dollars for decrease in value of inventories, and a provision of approximately 166 million dollars for the impairment of goodwill, intangible assets and fixed assets used for the terminated operations and for the reorganization costs.
- 9. During the first quarter of 2001, other indications were received of a change in ECI's fair value. These indications included, inter alia, valuations made by an independent outside appraiser for ECI, relating to the value of four of ECI's business units, discussions concerning the sale of Lightscape Networks ("LSN"), which is one of

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ECI's main business units, and another indication concerning the value of LSN which derived from the assessments of an investment bank regarding the value of LSN, which it prepared for examining the possibility of raising capital by way of a private placement.

In view of the aforesaid, Koor's management decided, in the first quarter, to reduce the book value of the investment in ECI in respect of a decrease in value not of a temporary nature, by approximately NIS 225 million, to NIS 2,379 million as at March 31, 2001.

During the second quarter of 2001, since the negative trends in the telecommunications sector continued, and particularly in light of the uncertainty as to the recovery of this market, Koor's management decided to commission a comprehensive evaluation of ECI from the same appraiser who had prepared the previous valuations for ECI.

ECI's fair value according to the findings of the valuation, ranges from 985 million dollars to some 1,230 million dollars, and therefore the fair value of Koor's investment in ECI were between 340 million dollars and 420 million dollars.

Based on the above, Koor's Board of Directors decided to reduce the book value of the investment in ECI in respect of decrease in value not of a temporary nature, by approximately NIS 632 million (in addition to the reduction made in the first quarter of the year), setting the investment at NIS 1,656 million at June 30, 2001.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

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

ECI's operations results and other indications, including an indication from an outside appraiser, served Koor's management for the valuation of its investment in ECI in the third quarter of 2001. In view of the data available to the Koor management, as well as the ongoing slowdown in the markets in which ECI operates, Koor's Board of Directors decided to write-off the balance of the goodwill allocated to the investment in ECI, in the amount of NIS 280 million. Thus, the write-offs of goodwill in 2001 amounted to approximately NIS 1,127 million. The write-offs of goodwill were included in the Statement of Operations under the item "Group equity in the operating results of affiliates, net". The balance of Koor's investment in ECI as at September 30, 2001 was NIS 1,284 million.

As at December 31, 2001, Koor's balance of the investment in ECI was NIS 1,094 million.

10. The Company, while preparing its financial statements for the periods ended March 31 and June 30, 2002, reviewed the need to reduce the book value of the investment in ECI with respect to a decline in the value of the investment which is not of a temporary nature. The review is required under accepted accounting principles

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and pursuant to the guidelines published by the Israel Securities Authority in November 2001, which outline eleven "warning signs" whose occurrence require the company to carry out the review.

Due to the fact that two of these "warning signs" existed - the stock market share price and fundraising at a value lower than book value, the Company carried out the required review when preparing its financial statements for the period ended June 30, 2002. The review was based on an evaluation made by an external appraiser in March 2002 and on the development of ECI's business results from the date of that valuation to the date of those financial statements.

The Company's management believed that the circumstances in those periods did not require it to reduce the investment as presented in the Company's financial statements as at March 31 and June 30, 2002.

11. In November 2002 an independent external appraiser made an additional evaluation of ECI. According to this valuation, ECI's value as at September 30, 2002 was in the range of 490 to 560 million dollars (between 4.6 and 5.2 dollars per share).

Based on this valuation, the Company's management decided to reduce the book value of its investment in ECI so that on September 30, 2002 the investment was recorded at NIS 836 million (5.2 dollars per share), which reflects the recoverable value of its investment in ECI as a principal shareholder. Of the NIS 132 million reduction in value, 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 107 million. The balance of NIS 25 million was charged to the statement of income and under the item "Group equity in the operating results of affiliates".

At the request of the appraiser (who consented to the Company's use of the valuation), the Company undertook to indemnify it against any expense or financial loss, if any, which it incurs as a result of any legal action against it by any third party which cites the valuation as its cause.

As at December 31, 2002, Koor's balance of the investment in ECI is NIS 825 million.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- A. ECI Telecom Ltd. ("ECI") - an affiliated company (cont'd)
12. For adjustment of the net loss of ECI as reported by it in accordance with U.S. accounting principles for the net loss according to Israeli accounting principles - see Note 28A(20).
- B. Tadiran Ltd. (in voluntary liquidation) ("Tadiran") - a consolidated company

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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 translation differentials at Koor in respect of its investment in Tadiran, of approximately NIS 398 million, was transferred to the statement of operations.
2. In March 2002 Tadiran's estate assets were transferred as a liquidation dividend to Koor. 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 278 million, and the capital gain was about NIS 30 million.

A tax reserve of about NIS 45 million, created in respect to those assets, was realized, following realization of the real estate assets, and the sum of approximately NIS 41 million in taxes was paid.

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a consolidated company

1. The consolidated companies of M-A Industries had, on December 31, 2002, agreements with banks whereby its consolidated companies sold certain customer debts to the banks. In the balance sheet as at December 31, 2002, the customer balance in respect of debts sold decreased by 1.4 million dollars (December 31, 2001 - 10 million dollars). The difference between the book balance of the debts sold and the received consideration was charged to the statement of operations. Under the agreements, the consolidated companies undertook to indemnify the banks in certain cases defined in the agreements, in which sold debts were not repaid.

In October 2001, M-A Industries and some of its consolidated companies ("the Selling Companies") entered into a securitization arrangement, for the sale of all their customer debts 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 debts was financed by an American company from the Bank of America Group. The volume expected to be at the disposal of the Purchasing Companies is approximately 150 million dollars on a current basis, so that the considerations received from the customers whose debts were sold will be used to purchase new debts. M-A Industries will handle the collection of the sold debts for the Purchasing Companies, for a fee to be determined. Under the securitization agreement, the debts of customers from South American countries were not sold. The cash balance of customer debts sold as at the balance sheet date amounted to approximately 101.8 million dollars (December 31, 2001 - 95.5 million dollars).

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a consolidated

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company (cont'd)

On the date of purchasing the debt, the Purchasing Companies will pay most of the price of the debt in cash, and the balance in a deferred liability which will be paid after collection of the sold debt.

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 is meeting these conditions.

2. In April 2002, a consolidated company of M-A Industries acquired the entire share capital of German company that distributes pesticides - Feinchemie Schwebda GmbH ("Feinchemie"). The cost of the acquisition was approximately 20.4 million dollars, where the acquiring company might be required to pay an additional sum of up to 5 million euro, subject to Feinchemie's revenues in 2002 and 2003.

The excess cost created at the time of the acquisition amounted to approximately 20 million dollars (including 4 million dollars created against a contingent liability, taking into account the assessment of management with respect to Feinchemie's earnings as aforesaid), which was allocated to goodwill and is being amortized over 20 years.

Below are the circumstances and indicators which, in management's opinion, justify amortization of the goodwill over a period of 20 years:

- The agrochemical market in Germany is the sixth largest in the world.
- Feinchemie is Germany's ninth largest distributor of generic agrochemical products.
- Feinchemie's area of activity is the marketing of agrochemical products. These products are based on basic chemical changes for which are not expected to undergo material technological changes and for which there is no substitute in the agricultural industry.
- Most of Feinchemie's customers are farmer and cooperatives, which are characterized by very low churn.
- Entry barriers in Germany are very expensive, lengthy and complex.

As of April 1, 2002, the financial statements of Feinchemie were consolidated. The effect of the first-time consolidation on the consolidated statement of operations was an additional income of about 25 million dollars and additional net profit in M-A industries (including amortization of goodwill) of about million dollars, and an additional 65 million dollars in assets (including the goodwill generated with the acquisition).

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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Note 3 - Information Regarding Certain Investee Companies (cont'd)

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a consolidated company (cont'd)
3. In October and November 2002, foreign and domestic consolidated companies of M-A Industries ("the Buying Companies") signed a number of agreements with Bayer Crop Science AG, one of the largest agrochemical companies in the world, for the acquisition of several agrochemical products, licenses and distribution rights. The acquisition amount was 178 million dollars.

The agreements were made contingent to the approval of the European Union Commission, and some agreement also required the approval of the German Trade Practices Authority. Some of the approvals were obtained during 2002, and others after the balance sheet date.

By the balance sheet date, the Buying Companies had paid approximately 131 million dollars in cash for the acquisition. The balance, about 47 million dollars, was paid after the balance sheet date and is presented under the item "Other Payables".

Under the acquisition agreements, the Buying Companies also acquired inventory valued at approximately 20 million dollars, 12 million dollars of which were acquired in 2002.

4. During 2001, consolidated companies 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 cost of the acquisition was approximately 105 million dollars, and is included under the item "Intangible assets and deferred expense". The sum of approximately 20 million dollars was allocated to the costs of registration and licenses and is depreciated over 20 years. while 2.5 million dollars was allocated to the acquisition of agreements with third parties and depreciated over 10 years. The depreciations are included under the item "Selling and marketing expenses". 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 represent goodwill amortized over 20 years in the item "Other income (expenses), net". The consideration for acquisition of marketing and distribution rights amounted to approximately 5 million dollars and will depreciated over 9 years. In April 2002 a consolidated company acquired a new herbicide product from Syngenta for approximately 10 million dollars. Under the agreements, if sales of some of the products in the next three years exceed certain volumes, an additional consideration, which is likely to reach some 8.3 million dollars will be paid. As at the date of approval of the financial statements, M-A Industries estimates that the additional consideration will not be paid, and therefore no provision was included in the financial statements.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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Note 3 - Information Regarding Certain Investee Companies (cont'd)

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a consolidated company (cont'd)
5. In December 2001 the supplement agreement signed August 2000 ("the Supplementary Agreement") between a company from the M-A Industries Group and the minority shareholder of a consolidated company of M-A Industries in Brazil ("Millenia"), for the acquisition of all their shares, which represented about 28.5% of the shares of Millenia was completed. M-A Industries has full ownership and control of Millenia, following the acquisition. The acquisition consideration amounted to 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 amortized over 20 years.
6. 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. As a result of these events, trading in foreign currency was temporarily halted. In January 2002, the Argentina's Congress granted the President legal authority to devalue the Argentina peso against the dollar (to which the peso had been linked by law for about 10 years), following which the government of Argentina announced a devaluation of about 29% (i.e. 1.4 peso per dollar). During February 2002, the law in Argentina was changed to state that the peso would be a floating currency and the rate of 1.4 pesos per dollar for exporters and importers no longer exists. On January 11, 2002, trading resumed in the foreign currency market in Argentina, and a conversion rate of 1.7 pesos to the dollar was set. This conversion rate was the determining rate as at December 31, 2001. As a result of the devaluation, the consolidated company's assets in Argentina eroded (mainly trade receivables and other debts receivable) in 2001 at the amount of approximately 15 million dollars. In addition, due to the economic and political situation in Argentina, M-A industries included in 2001 a one-time allowance of 8 million dollars, mainly on account of bad debt.

The recession in Argentina continued in 2002 and the peso was devalued further by approximately 98% (from 1.7 peso to the dollar on December 31, 2001 to 3.37 peso to the dollar on December 31, 2002).

In July 2002 the government of Argentina published regulations setting the various rates for the linkage of customer debt payments to the dollar, so that customer debts 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 defined in those regulations.

Due to the ongoing devaluation and economic crisis in Argentina and in view of the experience gained in the application of the regulations published by its government, M-A industries included a provision of about 10.8 million dollars in 2002 in respect to bad debts and in respect to erosion of the assets of the consolidated company in Argentina.

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a consolidated company (cont'd)

The continued recession in Argentina, the return of high inflation and high devaluation rates of the peso to the dollar, are liable to influence the results of operations and the business status of the consolidated company in Argentina. M-A Industries and its consolidated companies are guarantors for the liabilities of the consolidated company to the banks in Argentina in a total amount of about 17 million dollars.

7. During 2002, the local currency in Brazil was devalued against the dollar by about 52%, accompanied by high volatility throughout the year.
8. M-A Industries and its consolidated companies acted to minimize the exposure in respect of surplus monetary assets over monetary liabilities in the Brazilian real and the Argentinian peso.
9. Under a prospectus in November 2001, M-A Industries issued convertible debentures and options. The net proceeds from the issue were approximately 62.5 million dollars.

On January 23, 2002, M-A Industries issued to investors NIS 133,980,000 par value convertible debentures, as part of a private placement, for a total consideration of approximately 29.5 million dollars. The terms of these debentures are the same as the terms for the debentures issued by M-A Industries under a prospectus in November 2001. See Note 15B(3).

As at December 31, 2002, it is unlikely that the debentures will be converted or that the options will be exercised.

10. In April 2001 M-A Industries' Board of Directors adopted a resolution for the distribution of options to the employees of M-A Industries and its consolidated companies. According to the plan, over the next two years, 17,400,000 options, exercisable into 17,400,000 ordinary shares of NIS 1 par value each of M-A Industries, at an exercise price of NIS 8.76, linked to the dollar (all the options were allocated by the balance sheet date) will be allocated.
11. In 2001, Koor purchased 2,100,000 par value of shares of M-A Industries for NIS 22 million, and sold 19,383,000 shares of M-A Industries for approximately NIS 181 million (at the stock exchange price - NIS 8.80). The capital gain recorded during the third quarter of 2001 amounted to approximately NIS 14 million.
12. In May 2001 M-A Industries' Board of Directors decided to adopt a dividend policy at 15% - 30% of the annual net profit, subject to the existence of profits worthy of distribution and to specific decisions of the Board of Directors.

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In accordance with this policy, a dividend of 11.5 million dollars was distributed in respect of 2001 profits, and a dividend of 8.5 million dollars was announced and distributed in 2002. After the balance sheet date, an additional dividend of 9.5 million dollars was announced with respect to 2002 profits.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

C. Makhteshim Agan Industries Ltd. ("M-A Industries") - a consolidated company (cont'd)

13. The percentage of the Company's holding in M-A Industries as at December 31, 2002 is 52.37%. Assuming exercise and conversion of all the convertible securities issued and allotted by M-A Industries, the percentage of the Company's holding in M-A Industries will decrease to 43.56%.

D. Mashav Enterprise and Development Ltd. ("Mashav") - a proportionately consolidated company

In January 2000 Koor and Clal Industries & Investments Ltd. ("Clal"), completed a transaction for the sale of Mashav whereby Koor sold to Clal all its holdings (50%) in Mashav in consideration of NIS 962 million and 47.5% of the share capital in Mashal Alumina Industries Ltd. The capital gain to Koor from this sale was approximately NIS 392 million before tax, and after tax was approximately NIS 252 million.

During December 1999, before the above transaction was closed, Mashav distributed a dividend to Koor and Clal in the amount of NIS 767 million.

E. Telrad Networks Ltd. ("Telrad") - a consolidated company

1. In 2002, Telrad's board of directors is approved a reorganization plan that included additional employee retirement in addition to the previous retirement plans from 2000 and 2001. The financial statements for 2002 include an expense of NIS 109 million, recorded under the item "Other income (expenses), net" (the cost of the reorganization plan in 2001 and 2000 amounted to NIS 92 million and NIS 278 million respectively). The amounts scheduled for payment during 2003 are presented as current liabilities.

2. As at the balance sheet date, Telrad did not meet some of the financial ratios defined in an agreement with the banks. The company reached agreement in principle with the banks, whereby approximately NIS 129 million of loans were repaid. NIS 33 million of short-term credit was converted into long-term loans, and the balance of the debt was rescheduled.

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A written agreement has not yet been drafted, but its principles are reflected in the financial statements as at December 31, 2002.

3. In 2000, a series of agreements were signed between the Company, Telrad and Nortel Networks ("Nortel"), whereby a new company was established in Israel - Nortel Network Israel Ltd. ("Nortel Israel"), controlled by Nortel. Koor and Telrad invested 5.6 million dollars in the share capital in exchange for 28% of the rights to profits, without voting rights, and made shareholders' loans available to Nortel Israel in the amount of 43 million dollars at 6% annual interest, to be repaid in 2003.

Telrad signed an agreement with Nortel Israel whereby the marketing operations of public exchanges and TX1 business exchanges would be carried out by Nortel Israel, while Telrad would be a sub-contractor for the manufacture of those exchanges.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- E. Telrad Networks Ltd. ("Telrad") - a consolidated company (cont'd)

Telrad received 90 million dollars in respect of the transaction over and above the book value of the transferred assets. As a result, in 2000 Koor recorded a capital gain after tax of approximately NIS 278 million. Koor and Telrad were granted a put option to sell to Nortel the shares in Nortel Israel, and at the same time, Nortel was granted a call option to purchase those shares.

The two options have identical exercise prices and can be exercised in 2003 at a price reflecting the amount of the investment plus a yield defined in the agreement. The Company estimates that the probability of one of the options not being exercised is low.

In view of the above, the investment in Nortel Israel and the loans it was granted are presented in current assets (in 2001 the investment was presented under the item "Investments and other receivables").

4. In 2001 a contract was signed between Telrad and ECTel (a public company and ECI's subsidiary), whereby Telrad sold 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 handled in Koor's financial statements in accordance with the accounting principles for similar asset-exchange transactions, and accordingly, no profit or loss was recorded from the transaction (See also Note 27C).

5. In May 2002, Telrad signed a share swap and merger plan agreement with Connegy Inc., whereby a wholly-owned consolidated company of Telrad merged with Connegy Inc. After the merger, the Company holds

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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 similar asset swaps, and therefore, no loss or gain was recorded from the transaction.

- F. Elisra Electronic Systems Ltd. ("Elisra") - a consolidated company
1. On July 2, 2002, the Company, Elisra and Elta Electronic Industries Ltd. ("Elta" or "the Buyer") signed an agreement ("the Purchase Agreement") whereby Koor would sell to Elta 30% of Elisra's shares for 100 million dollars.

In addition, Koor granted to Elta options to increase its holding in Elisra by up to an additional 8% in consideration of a maximum sum of approximately 26 million dollars. Under the Purchase Agreement, Koor agreed to indemnify the Buyer if certain conditions, set out in the Agreement, existed. Also see Note 18A(2).

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Note 3 - Information Regarding Certain Investee Companies (cont'd)

- F. Elisra Electronic Systems Ltd. ("Elisra") - a consolidated company (cont'd)

An agreement, between Koor and Elta, to which Elisra is a party, set out the structure of the Elisra's Board of Directors and its decision-making process, and imposed certain limitations on the sale of Elisra's shares.

In addition, a cooperation agreement was signed between Elisra and Elta, with regard to their activities, including a proposal for an agreed basket of products and the principles for selecting a project leader from time to time.

Following the Agreement, it became feasible to utilize Koor's tax losses carried forward, and therefore, a tax asset of approximately NIS 121 million was recorded under the income tax item.

In November 2002, after receipt of the required approvals, the transaction was completed.

In the fourth quarter, Koor recorded a capital gain of approximately NIS 346 million, under the item "Other income, net", and tax expenses of approximately NIS 121 million following utilization of the tax asset mentioned above.

2. On March 17, 2001, a fire broke out at the plants of Elisra's consolidated companies - Tadiran Systems Ltd. and Tadiran Spectralink Ltd. The consolidated companies' management estimated, on the basis, inter alia, on the opinion of its professional advisers, that the indemnity from the insurance companies would be not less than the book value of the damaged property, i.e. about 33 million dollars. By December 30, 2002, the insurance companies had transferred advance payments of about 10 million dollars.

In view of the ongoing processes and the opinion of Elisra's

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management that additional legal proceedings will be necessary, the balance of the above amount is presented as a long-term debt.

The amount of the claim filed against the insurance company is considerably higher than the book value of the damaged assets, and is based on their market value, recourse costs and compensation for the loss of income. In October 2002 the consolidated companies submitted a revised claim to the insurance company.

3. In the year ended December 31 2002, BVR (a subsidiary of Elisra) incurred an operating loss of \$3.9 million and a net loss of 5.8 million dollars and had negative cash flows from operating activities of 3 million dollars. In addition, as of December 31, 2002 BVR has a deficiency in its shareholders' equity of 3.6 million dollars and a working capital deficit of 5.4 million dollars. On the same date, BVR's cash balances amounted to 860 thousand dollars and its short-term bank credit totaled 15.1 million dollars. Subsequent to balance sheet date, BVR reached an agreement with its principal bank lenders to reschedule the repayment of short-terms loans in the amount 9 million dollars to June 30, 2004.

BVR is confident that the rescheduling of the above mentioned loans, together with meeting forecasted cash flows from operating activities for 2003, as well as obtaining orders forecasted in the budget approved by its Board of Directors will enable it to meet its anticipated commitments for at least 12 months following the date of approval of its financial statements.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- F. Elisra Electronic Systems Ltd. ("Elisra") - a consolidated company (cont'd)
3. (cont'd)

The losses incurred by BVR and its financial position has prompted Elisra to write-down the goodwill recorded on the acquisition of BVR by approximately NIS 36 million. The book value of the net assets of BVR together with the balance of goodwill following the above-mentioned write-down is negligible.

During 2000 and 2001, provisions of approximately NIS 44 million and NIS 38.8 million respectively were recorded in the goodwill of BVR, in order to reflect a decrease in value not of a temporary nature, based, inter alia, on the business operations, the backlog, and updated assessment of the market potential. The provisions are included under the item "Other income (expenses), net".

- G. United Steel Mills Ltd. ("USM")

On November 5, 2001, the Haifa District Court gave a liquidation order for USM Group Ltd., under which Adv. Ilan Shavit was appointed

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as special manager until a permanent liquidator would be 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 the financial statements of Koor 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 segment in Koor's operations, after two other companies in this segment were sold during 2000. Therefore, in the Statement of Operations, including the earning (loss) per share for the year that ended December 31, 2001, operations in the construction and infrastructure segment are presented as a segment whose operations were discontinued (see Note 23(h)).

During 2001, in the period when the group was managed under the stay of proceedings order, Koor made available, ex gratia and without committing to it, a special credit line of about NIS 30 million, which was given concurrently with credit arrangements given ex gratia by the banks, and was intended to finance the expenses involved in the sale of the plants and the workers' retirement arrangements. Since Koor was not a guarantor for the debts of USM to third parties, it had no share in USM's losses for the first six months of 2001 beyond the aforementioned amount.

- H. Koor Corporate Venture Capital ("Koor CVC")- a consolidated partnership
- 1. On January 2, 2000, Koor and a wholly-owned subsidiary set up a registered partnership called "Koor Corporate Venture Capital", through which Koor concentrates its investment activities in venture capital funds and in technological companies with growth potential. See Note 18B(5) for investment commitments and investments after the balance sheet date.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 3 - Information Regarding Certain Investee Companies (cont'd)

- H. Koor Corporate Venture Capital ("Koor CVC")- a consolidated partnership (cont'd)
- 2. During the reporting period, Koor CVC's management estimated that the value of the investments in the portfolio was lower than the cost of the investment, and therefore decided to reduce the value of the investment by approximately NIS 95 million (as outlined in the following item 3).
- 3. On January 9, 2003 Koor CVC signed a letter of intent with a secondary venture capital fund (the "Acquiring fund") for the sale of its limited partnership in certain venture capital funds ("the Funds"). The letter of intent states that from now on, the balance

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of Koor CVC's commitment in the Funds would be transferred to the Acquiring CVC.

In view of the aforesaid, a provision was recorded for decline in value, at 50% of the balance of the equity in the Funds Being Sold, so that their value in the financial statements reflects 50% of the equity of the funds being sold.

I. Divestiture of additional holdings

1. On May 4, 2001, Koor Group sold, free of charge, all its holdings (50%) in Sigmaone Communications ("Sigma1") to the KL-LLC group ("the Buyers"), the other shareholders in Sigma1.

In the sale transaction, Koor and the Buyers transferred 2 million dollars to Sigma1, to ensure its operation as a going concern. Koor Group also replaced the existing debt of Sigma1 to it with a new debt, which includes an option to convert the debt to shares of about 15% of the capital of Sigma1, on the transaction date.

Accordingly, the financial statements of Koor recorded a provision in the amount of the investment, including the loans which Koor extended to Sigma1, of approximately 10 million dollars.

2. During 2001, a consolidated subsidiary of Koor Properties Ltd. (a company wholly-owned by Koor) sold part of its real estate assets in consideration of NIS 51 million (of which approximately NIS 34 million were received in 2002). Neither a profit nor a loss was recorded from the sale.
3. In the first quarter of 2001, a provision of 10 million dollars was recorded for a decrease in value of investments in investee companies, so as to reflect, in the company's estimation, the anticipated losses as a result of the expected realization from investments or from a decrease in value not of a temporary nature. The reduction is recorded in the item "Other income (expenses), net". The balance of this provision as at December 31, 2001 is 8.7 million dollars.
4. During December 2002, pursuant to the Company's decision to concentrate its public holdings, Koor sold 3,000,000 ECI shares to a wholly-owned company at the market exchange price. The transaction was handled in accordance with the Securities regulations (Presentation of actions between a corporation and its controlling shareholder in the financial statements) - 1996.

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Koor Industries Ltd. (An Israeli Corpo

Notes to the Financial Statements

Note 4 - Short-Term Deposits and Investments

Consolidated

Company

December 31

December 31

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	2002	2001	2002	
	NIS thousands		NIS thousands	
Marketable securities (1):				
Debentures	149,141	349,556	127,559	328,000
Short-term Treasury notes	164,917	69,866	129,328	69,000
Shares and options	53,291	112,430	49,801	106,000
Mutual fund participation certificates	4,675	8,159	-	
	372,024	540,011	306,688	504,000
Deposits in banks and financial institutions	451,436	99,066	394,542	
Short-term loans and current maturities of long-term loans	234,974	3,240	176,025	3,000
	1,058,434	642,317	877,255	507,000

(1) Presented at market value.

Note 5 - Trade Receivables

Consolidated:

	December 31	
	2002	2001
	NIS thousands	
Open accounts	1,556,693	1,848,500
Deferred promissory note and receivables from sale of customers' debts*	383,394	315,160
Post dated checks receivable and credit card companies	51,561	33,040
Current maturities of long-term trade receivables	49,508	49,010
	2,041,156	2,245,730
Including:		
Net of allowance for doubtful accounts	96,319	107,330

* 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 purchaser, were written off. 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, 2002 - NIS 357,468 thousand, December 31, 2001 -

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NIS 304,075 thousand), see Note 3C(1).

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Koor Industries Ltd. (An Israeli Corpo

Notes to the Financial Statements

Note 6 - Other Receivables

	Consolidated		Company	
	December 31		December 31	
	2002	2001	2002	2001
	NIS thousands		NIS thousands	
Government agencies	134,424	*164,639	724	
Deferred taxes, see Note 16F	74,481	112,007	-	
Accrued income	40,522	135,258	2,404	2
Prepaid expenses	45,560	46,316	-	
Employees	10,121	13,258	-	
Affiliates - current accounts	3,201	3,410	-	
Others	150,451	159,285	46,975	12
	458,760	634,173	50,103	15

* Reclassified

Note 7 - Inventories and Work in Progress

Consolidated:

	December 31	
	2002	2001
	NIS thousands	
A. Inventories and work in progress, net of customer advances		
Presented as current assets:		
Industrial inventory:		
Raw and auxiliary materials	596,237	689,24
Goods and work in progress (1)	261,889	272,62
Finished goods	1,082,042	863,44
Advances in respect of materials	3,439	17,56
Inventories for trading operations - merchandise,		

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including advance payments	74,283	74,84
	-----	-----
	2,017,890	1,917,72
Less - customer advances	8,276	47,18
	-----	-----
	2,009,614	1,870,53
	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 7 - Inventories and Work in Progress (cont'd)

	December 31	
	2002	2001
	NIS thousands	
	-----	-----
B. Customer advances, net of work in progress		
Presented as current liabilities:		
Customer advances in respect of work in progress (1) (2) (3)	234,459	299,11
Less - inventory and work in progress	189	1,05
	-----	-----
	234,270	298,05
	=====	=====
(1) Net of provision for loss in respect of work in progress	62,785	13,91
	=====	=====
(2) Not including long-term advances		
(3) 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 Corpo

Notes to the Financial Statements

Note 8 - Investments in Investee companies

	December 31	
	2002	1991
	NIS thousands	
A. Consolidated balance sheet - affiliates		
Net asset value of the investments (1) (2)	1,013,968	1,370,000
Goodwill and original difference (2):		
Original amount	67,742	70,000
Accumulated amortization	(46,474)	(40,000)
	21,268	30,000
Long-term loans (3)	26,066	20,000
	<u>1,061,302</u>	<u>1,430,000</u>
(1) As follows:		
Net asset value of investments as at December 31, 1991	282,484	280,000
Changes from January 1, 1992:		
Cost of shares acquired or received	1,284,126	1,250,000
Accumulated earnings, net	(611,482)	(360,000)
Changes in capital reserves and		
Foreign currency translation adjustments	(20,794)	70,000
Initially consolidated subsidiaries, net	474,130	470,000
Disposals, net	(394,496)	(360,000)
	<u>1,013,968</u>	<u>1,370,000</u>
(2) Including investments in companies traded on the Stock Exchange in Tel Aviv or abroad, in NIS millions:		
Carrying value	981	1,000
Market value as at balance date	430	1,000
(3) Linkage terms and interest rates relating to long-term loans:		
Linked to the CPI - bearing interest at the rate of 5.5%	19,519	20,000
Linked to the Dollar - in part bearing interest up to the rate of 3.4%, and in part bearing no interest	6,547	0
	<u>26,066</u>	<u>20,000</u>

Notes to the Financial Statements

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

B. Company balance sheet - investees

	December 31	
	2002	
	NIS thousands	
Shares:		
Net asset value of the investments	2,093,307	*2,89
Goodwill and original differences:		
Original amount, net	224,629	*35
Accumulated amortization	(109,502)	(9
	115,127	25
Book value (1)	2,208,434	3,15
Payments on account of shares (1)	59,960	5
Long-term loans and capital notes (2)	1,445,147	1,55
Non-current inter-company accounts (3)	3,112	
	3,716,653	4,77

(1) As follows:

Cost of shares including accumulated earnings as at December 31, 1991	2,071,733	2,07
Changes from January 1, 1992:		
Cost of acquired shares	7,173,332	7,16
Accumulated earnings, net	(4,531,108)	(3,31
Changes in capital reserves, net	118,445	(28
Disposals	(2,564,008)	(2,41
Book value, including payments on account of shares (4)	2,268,394	3,21

* Reclassified

Notes to the Financial Statements

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

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

	December 31	
	2002	2001
	NIS thousands	
(2) Long-term loans and capital notes:		
Long-term loans (a)	122,874	163,384
Capital notes - unlinked and not bearing interest (b)	1,404,226	1,425,226
	1,527,100	1,588,610
Less - current maturities of long-term loans	81,953	33,110
	1,445,147	1,555,500

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

	Interest rate at December 31 2002	December 31 2002	December 31 2001
	%	NIS thousands	
Linked to the Dollar	3.73	5,921	5,879
Linked to the CPI	2.0-2.75	73,114	78,447
Linked to the CPI	No interest	43,839	79,058
		122,874	163,384

(b) Capital notes are not presented at their present value, since their repayment date has not yet been fixed by the parties.

(3) Non-current inter-company accounts:

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	December 31	
	2002	2001
	NIS thousands	
Linked to the Dollar	142	142
Unlinked-bears interest at the rate of the increase in the CPI	2,970	2,000
	3,112	2,142

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Koor Industries Ltd. (An Israeli Corpora

Notes to the Financial Statements

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

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

	December 31	
	2002	2001
	NIS thousands	
(4) Including investments in marketable shares traded on the Tel Aviv Stock Exchange or abroad in NIS millions:		
Carrying value	1,363	1,700
Market value as at balance date	811	1,400

Note 9 - Other Investments and Receivables

A. Composition:

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	Consolidated		
	December 31		
	2002	2001	
	NIS thousands		
Deposits in banks and in financial institutions	77,755	417,733	5
Non-current trade receivables	26,473	61,231	
Long-term loans receivable from others	51,482	280,810	
	155,710	759,774	5
Marketable securities	1,513	3,184	
Venture capital investment	289,745	336,326	
Indemnification receivable for fire damages	110,140	-	
Non-marketable shares and payments on account	1,746	26,674	
Others	23,666	30,833	
	582,520	1,156,791	5

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Koor Industries

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:

	Average interest rates at December 31 2002	
	%	
Linked to the CPI	Mainly 5.7	6

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Linked to the foreign currency (mainly to the Dollar)	0 - 10.0	9
Unlinked	0 - 11.3	

15
=====

Company:

Average interest rates at December 31 2002	-----
%	-----

Linked to the CPI	5.7	5
Linked to the Dollar		

5
=====

C. Repayment schedule of deposits, non-current customers balances and long-term loans from others, in the consolidated balance sheet:

	Consolidated		
	December 31		
	2002	2001	2002
	NIS thousands		N
Amounts collectible in the:			
Second year	101,149	669,274	55,207
Third year	19,702	43,046	-
Fourth year	8,762	10,819	-
Fifth year	5,439	31,495	-
Thereafter and without a specific maturity date	20,658	5,140	-
	-----	-----	-----
	155,710	759,774	55,207
	=====	=====	=====

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Koor Industries L

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Note 10 - Fixed Assets

A. Consolidated

	Land (including leasehold land)	Buildings	Mac eq instal
NIS thousands			
Cost as at January 1, 2002	125,749	1,737,152	3,9
Additions during the year	973	28,758	1
Adjustments resulting from foreign currency translation differences*	500	4,157	
Formerly consolidated subsidiaries, net	237	7,690	
Other changes during the year, net	-	(8,419)	
Balance as at December 31, 2002	127,459	1,769,338	4,1
Accumulated depreciation as at January 1, 2002	1,188	596,985	2,1
Additions during the year	57	45,221	1
Adjustments resulting from foreign currency translation differences*	5	1,748	
Formerly consolidated subsidiaries, net	-	2,037	
Other changes during the year, net	-	(1,571)	(
Balance as at December 31, 2002	1,250	644,420	2,3
Net book value as at December 31, 2002	126,209	1,124,918	1,8
Net book value as at December 31, 2001	124,561	1,140,167	1,7

[table continued]

Office furniture and equipment	Tools and instruments	Ins co an on a
---	-----------------------------	----------------------------

NIS thousands

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Cost as at January 1, 2002	185,165	4,316
Additions during the year	26,618	-
Adjustments resulting from foreign currency translation differences*	1,120	-
Formerly consolidated subsidiaries, net	3,264	-
Other changes during the year, net	(7,903)	(1,060)
	-----	-----
Balance as at December 31, 2002	208,264	3,256
	=====	=====
Accumulated depreciation as at January 1, 2002	109,689	-
Additions during the year	19,589	-
Adjustments resulting from foreign currency translation differences*	711	-
Formerly consolidated subsidiaries, net	1,909	-
Other changes during the year, net	(7,157)	-
	-----	-----
Balance as at December 31, 2002	124,741	-
	-----	-----
Net book value as at December 31, 2002	83,523	3,256
	=====	=====
Net book value as at December 31, 2001	75,476	4,316
	=====	=====

* 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 2002 and thereafter. Certain leases provide an option for extension for another 49 years.

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The cost of leasehold real estate as at December 31, 2002, is approximately NIS 812 million, of which approximately NIS 456 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 199 million, adjusted, and NIS 203 million, adjusted, as at December 31, 2002 and 2001, respectively (see also Note 16A).
- (3) Includes capitalized interest amounting to NIS 93,278 thousand adjusted, and NIS 81,330 thousand adjusted to December 31, 2002 and 2001, respectively.
- (4) As for amounts charged to cost of fixed assets, see Notes 23B and E.
- (5) Including fully depreciated assets amounting to NIS 1,033 million, adjusted to December 31, 2002.
- (6) See Note 22 regarding liens.

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Koor Industries Ltd. (An Isra

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:

	Balance at beginning of year	Changes during the year	
	-----	-----	-----
		Additions	Disposals
		-----	-----
		NIS thousands	
	-----	-----	-----
Cost:			
Offices and land *	36,700	-	-
Vehicles	563	-	563
Office equipment	6,495	110	240
	-----	-----	-----
	43,758	110	803
	-----	-----	-----

Accumulated depreciation:

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Offices	2,411	1,078	-
Vehicles	314	56	370
Office equipment	2,447	562	235
	-----	-----	-----
	5,172	1,696	605
	-----	-----	-----
Net book value:			
Land and offices	34,289		
Vehicles	249		
Office equipment	4,048		
	-----	-----	-----
	38,586		
	=====	=====	=====

(*) 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. 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 - Other Assets, Net of Amortization

A. Consolidated balance sheet

	December 31	
	2002	2001
	NIS thousands	
	-----	-----
Intangible assets-goodwill:		
Original amounts	903,663	823,591
Accumulated amortization	360,835	261,285
	-----	-----
	542,828	562,306
	-----	-----
Licensing of products abroad:		
Original amounts	713,868	549,659
Accumulated amortization	355,056	293,201
	-----	-----
	358,812	256,458
	-----	-----

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Intangible assets in the purchase of products:(1)		
Original amounts	1,346,791	495,600
Accumulated amortization	48,567	21,252
	-----	-----
	1,298,224	474,348
	-----	-----
Marketing rights and others:		
Original amounts	213,238	118,182
Accumulated amortization	54,307	64,216
	-----	-----
	158,931	53,966
	-----	-----
Deferred expenses:		
Debtentures issuance costs:		
Original amount	13,566	34,706
Accumulated amortization	2,402	22,520
	-----	-----
	11,164	12,186
	-----	-----
Deferred taxes receivable (see Note 16(F))	72,906	103,964
	-----	-----
	2,442,865	1,463,228
	=====	=====

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

B. Company balance sheet

The Company's deferred expenses relating to NIS 17,526 thousand of debtentures, were fully depreciated in 2001.

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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		Comp
December 31		Decem
2002	2001	2002
NIS thousands		NIS th
-----	-----	-----
-----	-----	-----

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Notes to the Financial Statements

Note 13 - Trade Payables

	Consolidated		Company
	December 31		December 31
	2002	2001	2002
	NIS thousands		NIS thousand
Open debts	1,181,420	1,338,835	1,074
Cheques and notes payable	24,494	25,481	208
	1,205,914	1,364,316	1,282

Note 14 - Other Payables

	Consolidated		Company
	December 31		December 31
	2002	2001	2002
	NIS thousands		NIS t
Employees and withholdings remittable	138,156	138,451	22
Provision for vacation pay and vacation expense allowance	112,043	110,601	2,951
Expenses to be paid	281,335	203,382	30,419
Government agencies (including taxes)	143,949	*153,090	1,568
Provision for warranty and repairs	34,387	26,190	-
Payables for purchase of assets	225,036	230	-
Severance pay payable and current portion of early retirement pensions (see Note 17)	150,467	105,309	153
Reserve for internal insurance	15,389	18,738	7,871
Dividend proposed to the minority	-	5,801	-
Deferred income	14,549	20,859	-
Liability in respect of securities that were sold short	72,462	62,388	-
Others	233,472	283,713	36,578
	1,421,245	1,128,752	79,562
Includes interested parties			502

* Reclassified

Notes to the Financial Statements

Note 15 - Long Term Liabilities

A. Loans

	Consolidated		Compa
	December 31		Decemb
	2002	2001	2002
	NIS thousands	NIS thousands	NIS thousands
1. Loans from banks	4,900,688	5,093,407	2,582,089
Less - current maturities	989,595	488,045	470,416
	3,911,093	4,605,362	2,111,673
2. Loans from others:			
Shareholders in subsidiaries and in proportionately consolidated companies	39,200	30,895	-
Investees	-	-	93,801
Receipts from time-sharing units	35,282	35,615	-
Deferred income	4,239	9,890	-
Others and long-term accrued expenses	29,102	34,871	-
	107,823	111,271	93,801
Less - current maturities	1,106	1,251	93,801
	106,717	110,020	-
Total loans	4,017,810	4,715,382	2,111,673

3. Classification by linkage terms and interest rates:

The consolidated balance sheet:

Interest rate at December 31 2002	December 2002
%	NIS tho

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Linked to the foreign currency (mainly Dollar)	1.7 - 9.0 (mainly 1.7 - 3.5)	2,912,715
Linked to the CPI	3.7 - 6.35 (mainly 5.8 - 6.35)	2,045,155
Linked to the CPI	No interest	42,831
Unlinked	0 - 10.0	7,810

		5,008,511
Less - current maturities		990,701

		4,017,810
		=====
* Reclassified		

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Koor Industries Ltd. (An Israel

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 2002 ----- %	December 31 ----- 2002 2001 ----- NIS thousands -----	
		a. From banks	
Linked to the CPI	5.8 - 6.34	1,952,639	1,619,291
Linked to the Dollar	2.8 - 7.7 (mainly 3.3)	629,450	1,185,172
		-----	-----
		2,582,089	2,804,463
Less - current maturities		470,416	-
		-----	-----
		2,111,673	2,804,463
		=====	=====

In October 2001, an agreement was signed with Bank Hapoalim B.M., whereby long-term loans amounting to 253 million dollars were rescheduled to the Company for a five-year period, whereby the

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interest payments will be made quarterly. It was further agreed that the bank would extend an additional 50 million dollars loan to Koor, for a five-year period on the same terms.

In addition, during December 2001, the Company signed an additional agreement with another bank, whereby short-term credit to the total amount of 80 million dollars was rescheduled into a long-term credit for a three-year period.

In June 2002 an agreement was signed with Bank Leumi le'Israel B.M., whereby a long-term loan of 120 million dollars was re-extended to the Company for 4.5 years.

Based on the terms of the agreements signed with the banks, Koor committed, among other things, to maintain minimum shareholders' equity, and to repay part of the outstanding debt from proceeds of divested assets, should they be divested. As at the balance sheet date, Koor fulfills all its commitments to the banks.

	Interest rate at December 31 2002	December 31	
		2002	2001
	%	NIS thousands	
b. From investees:			
Linked to the CPI	4.0	93,801	117,420
Less - current maturities		93,801	27,245
		-	90,175
		-	90,175

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Koor Industries Ltd. (An I

Notes to the Financial Statements

Note 15 - Long Term Liabilities (cont'd)

B. Debentures

	Consolidated		
	December 31		
	2002	2001	2000
	NIS thousands	NIS thousands	NIS thousand
Debentures (1):	-	36,666	
Less - current maturities	-	36,666	
	-	36,666	

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	-	-	
	=====	=====	=====
Debtures convertible in shares of Series F issued by Koor (2):	39,193	78,256	39,19
Debtures convertible into shares of investee companies (3): Issued by subsidiaries	405,141	275,114	
	-----	-----	-----
	444,334	353,370	39,19
Less - current maturities	39,193	39,134	39,19
	-----	-----	-----
	405,141	314,236	
	=====	=====	=====

(1) Debtures of Series 7 issued by Koor Issuers Ltd. (consolidated company) bear interest of 4.5% and are linked to the CPI, both as to principal and interest. The debtures were payable until 2002. As at the balance sheet date, all the debtures were paid.

(2) Debtures convertible into shares in Koor:

(a) NIS 23,435 thousand par value of debtures (Series F), traded on the Tel-Aviv Stock Exchange, are linked to the CPI of April 1994 and bear interest at an annual rate of 2.75%. The debtures are redeemable, if not previously converted into shares, in the year 2003. The debtures are convertible into registered ordinary shares of Koor of a par value of NIS 0.001 at the conversion rate of NIS 330 par value of debtures for one ordinary share.

In the current period debtures of a par value of NIS 23,435 thousand (Series F) were converted into shares. As at December 31, 2002 it is not probable that the debtures will be converted.

(b) The debtures are secured by a first degree fixed token charge on a NIS 1 coin deposited with a trustee. In addition, Koor undertook not to create any charges on its assets, whether fixed or floating, prior to receiving the trustee's explicit approval, and on the condition that a charge of the same degree and the same level will also be registered in favor of the trustee to secure the debtures, except for a token charge to secure additional series of debtures that will be issued by Koor.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 15 - Long Term Liabilities (cont'd)

B. Debtures (cont'd)

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2. Debentures convertible into shares in Koor: (cont'd)
- (c) According to the prospectuses of the issue of Koor's convertible debentures, Koor will refrain from any distribution of dividends out of capital reserves, or from funds or profits deriving from capital gain, either of the Company or of the subsidiaries.
3. Debentures convertible into shares of investee companies that were issued by the Company and subsidiaries

	Interest rate as at December 31 2002	Maturity	2002 NIS thousands	
	%	-----	-----	-----
Linkage bases and interest rates:				
Linked to the Dollar (a)	2.5	2007	405,141	=====

- (a) In November 2001 M-A Industries issued, under a prospectus, convertible debentures and options for a net consideration of approximately NIS 281 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 262 million) was allocated to the fair 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 10.58 (following distribution of a dividend) par value of debentures per one ordinary share.

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.

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. The debentures are secured by a symbolic fixed senior lien on a deposit of NIS 1 in favor of the trustee for the debenture-holders. As at the balance sheet date, the debentures are not expected to be converted.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 15 - Long Term Liabilities (cont'd)

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

1. Consolidated

	Loans from banks		Loans from others		Debentures
	December 31		December 31		December 31
	2002	2001	2002	2001	2002
	NIS thousands				
Second year	916,758	1,535,076	25,087	22,693	-
Third year	388,310	832,245	7,012	11,114	-
Fourth year	2,034,024	323,917	4,981	5,303	-
Fifth year	274,750	1,547,971	4,404	18,507	405,141
Sixth year	90,703	123,819	4,300	4,427	-
Subsequent years	206,548	242,334	60,933	47,976	-
	<u>3,911,093</u>	<u>4,605,362</u>	<u>106,717</u>	<u>110,020</u>	<u>405,141</u>

2. The Company

	Loans from banks		Loans from investees		Convertible debentures
	December 31		December 31		December 31
	2002	2001	2002	2001	2002
	NIS thousands				
Second year	362,733	1,015,041	-	90,175	-
Third year	-	362,082	-	-	-
Fourth year	1,739,400	-	-	-	-
Fifth year	-	1,417,869	-	-	-
Sixth year	9,540	-	-	-	-
Subsequent years	-	9,471	-	-	-
	<u>2,111,673</u>	<u>2,804,463</u>	<u>-</u>	<u>90,175</u>	<u>-</u>

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- 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%.

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 Group's 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"):

In accordance with the Adjustments Law, the results for tax purposes are measured in real (non-inflationary) terms, based on the changes in the CPI.

- C. Law for the Encouragement of Industry (Taxation), 1969:

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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.

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%.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 16 - Taxes on Income (cont'd)

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

1. The consolidated balance of net operating and capital tax loss carryforwards to next years amounted to approximately NIS 2,677 million as at balance sheet date, out of which NIS 1,022 million relates to Koor. Carryforward tax losses are linked to the CPI.
2. The Company has received final assessments until 1998 tax year.

F. Deferred taxes:

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

	December 31	
	2002	2001
	NIS thousands	
Within current assets in respect of:		
Provision for vacation pay and severance benefits	(23,926)	(37,143)
Operating loss and capital loss carried forwards	(17,143)	(34,143)
Inventory, net of customer advances	9,879	4,143
Timing differences in respect of recognition of income and expenses	(43,291)	(44,143)
Total in current assets	(74,481)	(112,143)
Within long-term liabilities in respect of:		
Depreciation	376,450	329,143
Operating loss and capital loss carried forwards	(142,157)	(169,143)
Liability in respect of employee severance benefits	(39,336)	(46,143)
Other	7,451	16,143

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operations	83,350	6,585	65,737	(181,756)
Other changes, net*	(76,203)	(6,996)	10,939	60,254

Balance as at December 31, 2001	361,681	4,392	(102,331)	(253,934)
Translation differences in subsidiaries	2,396	49	(447)	(143)
Amounts charged to statement of operations	48,372	4,958	(40,769)	76,041
Other changes, net*	5,975	480	-	(802)

Balance as at December 31, 2002	418,424	9,879	(143,547)	(178,838)
=====				

* 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 Corporation)

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	
	2002	2001

NIS thousands		

Earnings (losses) before income tax:		
In Israel	(459,858)	(710,685)
Abroad	156,289	640
	(303,569)	(710,045)

=====		
For the current year:		
Current taxes:		
In Israel	68,741	67,981

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Abroad	17,726	11,462
Deferred taxes:		
In Israel	19,306	(3,314)
Abroad	62,518	(34,632)
In respect of previous years:		
In Israel	(8,530)	(6,252)
Abroad	237	4,331
	-----	-----
	159,998	39,576
	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

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	
	2002	2001

	NIS thousands	

Earnings (losses) before taxes on income, as reported in the statement of operations	(303,569)	(710,045)
	=====	
Statutory tax rate	36%	36%
	=====	
Theoretical tax expenses in respect of these earnings (losses)	(109,285)	(255,616)
Increase (decrease) in taxes resulting from the following factors - the tax effect:		
Tax benefits under various encouragement laws	(59,584)	(43,409)
Non-deductible expenses for tax purposes (including depreciation)	157,800	60,667
Losses for which deferred taxes were not recorded	198,499	168,800
Capital gains (losses) from sale of investments and assets, net	(93)	44,466
Provisions for anticipated losses from the		

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sale of assets, net	44,539	86,889
Tax loss carried forwards from prior years for which deferred taxes were not created and which were utilized during the current year	(61,287)	(1,501)
Effect of the Inflationary Adjustments Law in respect of companies whose functional currency is the Dollar	24,495	29,874
Taxes in respect of prior years	(8,293)	(1,921)
Effect of foreign subsidiaries	(29,416)	(47,990)
Others	2,623	(683)
	-----	-----
Total taxes on income	159,998	39,576
	=====	=====

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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 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 pay has been planned or agreed upon for the employees, appropriate provisions have been made for the supplementary amounts.

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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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). 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.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

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

	Consolidated		
	December 31		
	2002	2001	2002
	NIS thousands		
Severance pay and retirement grants	321,663	*319,053	9,843
Amount accrued for early retirement	157,134	117,959	655
Amount accrued in respect of unutilized sick leave	11,403	9,449	323
	490,200	446,461	10,821
Less - amount funded (1)	228,972	*242,360	2,278
	261,228	204,101	8,543

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

* Reclassified

Note 18 - Contingent Liabilities and Commitments

A. Contingent liabilities

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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 price-fixing and absence of competition between Tadiran Ltd. (wholly controlled subsidiaries of Koor - "Tadiran") and Tadiran Telecommunications Ltd. (formerly a Koor subsidiary) (hereinafter: "TTL") and between Telrad Networks Ltd. (wholly controlled subsidiaries 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 confiscated, 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 investigation regarding suspicions about restrictive arrangements between the Company, Tadiran, TTL, Telrad, Bezeq and BezeqCall, in the field of the supply of switchboards for the commercial market in the field of Network Termination Point.

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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)

1. Commissioner of Restrictive Trade Practices (cont'd)

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 offences against the Law, in the matter of the actions each of them allegedly took, according to the Authority, on various subjects related 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 field of Network Termination Point are still being reviewed by the commissioner.

Under the Law, penalties may be imposed against an entity which 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. The Company is unable to estimate, at this stage, the significance and implications of the Authority's notice, and accordingly, it was not considered appropriate to make any provision in the financial statements in respect of this matter.

See the following Note 18A5(a) for information on the indemnification Tadiran gave ECI.

2. The agreement with Elta includes an undertaking by Koor to

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indemnify Elta for damages, as defined in the agreement, which it incurs as a result of violation of representations made to Elta in the agreement. The main points of the undertaking to indemnify 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 incurred as a result of violation of the representation concerning the propriety of the provisions in the financial statements of Elisra for the year 2001 in respect of commitments 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 rights to Elisra Group's insurance indemnity to which it is entitled relating to the fire that occurred at the Group's plants. 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 in respect of the tax years up to the end of 2001 which Elisra undertook to make, and which 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 Elta, in relation to each of the tax years up to 2001, not later than 30 days after the date on which the self-assessment in respect of that tax year becomes final.
3. According to the terms of the agreement with the banks, Koor undertook, among other things, to maintain a minimum shareholders equity, and to partially repay the current debt by way of future divestitures of specific assets, in the event that the assets are sold. As at balance sheet date, Koor is complying with these conditions.

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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)

4. Telrad

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

On January 31, 1996, a ruling was handed down by the Tel Aviv

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District Labor Court, which completely rejected the claims of the Engineers Union. The Engineers Union appealed to the Labor Court, which stated that the Koor agreement is a collective agreement governing the relations between the company, the union and the employees of Telrad. An appeal was filed in the Supreme Court by Telrad.

On January 29, 2002 Telrad's appeal was dismissed, and the next stage is the hearing evidence to the Labor Court of concerning application of the salaries of the public service sector in Telrad.

In April 1996, a parallel claim was filed by the Lod Workers' Council and the Workers' Committee concerning the application of 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 the company's workers' committee. They are suing for 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 determine that Telrad is obliged to draw up new accounts for the distribution of earnings. In addition, an application was filed to recognize the plaintiffs as representatives of all Telrad's workers and employees. The court dismissed the application for a class action. A statement of defense has been filed.
- C. As a condition for the continued availability of bank credit lines, Telrad undertook to preserve certain financial ratios, such as the total shareholders' equity and operating cashflow, starting from September 30, 2001. Telrad also undertook to obtain the consent of the banks before making certain transactions, giving guarantees and realizing assets not in the normal course of business. Failure on Telrad's part to comply with these conditions will entitle the banks to foreclose on the loans, in part or in full.

As at the balance sheet date, Telrad was not in compliance with some of those stipulations. Telrad reached agreement in principle with the banks, whereby loans were repaid, short-term credit was converted to long-term loans, and the balance of the debt was rescheduled.

A written agreement has not yet been drafted, but its principles are reflected in the financial statements as at December 31, 2002.

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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)

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- D. In November 2001 a claim against Telrad, a consolidated company and the CEO of Telrad was filed by a former employee of the consolidated company. The amount of the claim is NIS 10 million for fee purposes alone. In the opinion of Telrad's management and its legal advisers, there are good chances that the claim will be rejected and therefore, no provision is made in the financial statements.

5. Tadiran and its investees companies

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

This indemnity shall remain valid for a period of seven years from the date of the merger and shall be extendible for an additional period as long as these matters are under investigation by the Commissioner.

- B. Employees of a plant of Tadiran, which closed during 1990, filed actions against the company, alleging that they sustained injuries or that certain work-related illnesses had been caused by exposure to certain substances during their employment. Tadiran has insurance policies which, relying on legal opinion, cover possible damages as a result of 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 the process of liquidation.

- C. In October 1999, Bezeq, The Israel Telecommunication Corp. Ltd. (hereinafter - "Bezeq") lodged a claim against Tadiran Ltd. whose main cause is various losses incurred to Bezeq due to delays in the performance of works which were ordered under 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 given on February 17, 2000, all Bezeq's arguments regarding Tadiran's liability for the Principal Claim were dismissed. The arbitration judgment determines 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 the opinion of management of Tadiran, based on the opinions of its legal counsel, the company will not bear additional substantial expenses over and above the allocations contained in the financial statements.

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Koor Industries Ltd. (An Israeli Corporation)

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

- A. Contingent liabilities (cont'd)
- 6. M-A Industries and its overseas investee companies
 - a. Quality of the environment

The activities of M-A Industries are exposed to the risk of harming to the environment, since the group manufactures, stores and sells chemicals. M-A Industries invest significant amounts in order to comply with the provisions of the laws and of the environmental regulations, and in the opinion of the management it does comply therewith. According to the Insurance experts M-A Industries' 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 do 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 M-A 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 impermeable to seepage or pollution. The Ministry of the Environment conducted tests, which determined that there is data indicating subterranean pollution in Ramat Hovav. The examiners recommended that steps be taken 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 Council and the plants for university institutions, for financing research which would provide a basis for recommendations as to the action to be taken to halt any further pollution. After the balance sheet date, the results of that research were submitted to M-A Industries. As at the date of signing the financial statements M-A Industries management is unable to assess impact of the report and accordingly, no provision has been included in the financial statements in respect thereto.

- b. A claim was filed against a subsidiary 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 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 in respect of 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.

Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

A. Contingent liabilities (cont'd)

- c. A claim was filed against a subsidiary in Brazil and others, in the aggregate amount of approximately 24 million dollars, by a group that acquired the rights of two banks that had declared bankruptcy. The subsidiary is requested to repay a loan of 1 million dollars out of the aforementioned amount, which the claimants maintain had been granted directly to the subsidiary. 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. Based on the opinion of its legal counsel, 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.
 - d. Administrative proceedings, civil actions and other fiscal demands have been filed against a subsidiary of M-A Industries, in an approximately amount of 18 million dollar. 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.
 - e. M-A Industries and one of its consolidated companies undertook towards banks to maintain certain financial criteria, mainly as to the liabilities to capital ratio, liquidity and profitability ratios. As at the balance sheet date, M-A Industries and the consolidated company are complying with these conditions.
 - f. On the matter of contractual transactions in securitization transactions, see Note 3C(1).
7. Elisra and one of its consolidated companies undertook towards the banks, to maintain financial criteria relating to shareholders' equity, equity to assets ratio and current and profitability ratio.

As at December 31, 2002, Elisra did not meet one of the financial ratios included in the financial covenants. The banks have agreed to postpone the date by which the Company will have to meet the above mentioned ratio until September 30, 2003. Elisra's management is of the opinion that the Company will meet the above deadline.

8. A number of claims have been filed against certain other companies concerning various matters derive from the normal course of business, including deliberation with tax, customs and VAT

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authorities, which are in various legal proceedings. The managements of these companies believe, based on the opinions of their legal counsels that adequate provisions of those claims have been made in their financial statements, in light of the circumstances.

9. On fulfillment of conditions relating to an investment grant - see Note 10A(2).

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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)

10. The business activities of the Koor Group are characterized primarily by advanced technologies. The accelerated pace of technological development and innovation, in the fields in which the group operates, require 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 worldwide 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.
11. On a class action filed against ECI, see Note 3A6.
12. On the indemnity granted to Claridge and Poalim Capital Markets & Investments Ltd. as advisers - see Note 25C2.
13. The Company undertook to indemnify the appraiser who conducted an evaluation for ECI, against any expense or financial loss, if any, which it incurs due to any claim filed against it by any third party, the cause of which is the valuation. See Note 3A11.

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 (in rates of 2% - 5% of proceeds of sales 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, 2002 - NIS 25,136 thousand.
In the year ended December 31, 2001 - NIS 27,543 thousand.
In the year ended December 31, 2000 - NIS 39,117 thousand.

Negotiations have been under way between a subsidiary and the

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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 proceeding will have no material effect, and accordingly, no provision was made in the financial statements.

2. Certain subsidiaries are required to pay royalties at the rate of 3% per year in respect of the increase in 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, 2002 - NIS 23 million; December 31, 2001 - NIS 38 million.

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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 (cont'd)

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 61 million in 2002, NIS 48 million in 2001, and NIS 34 million in 2000.

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

	December 31 2002 ----- (NIS thousands) -----
First year	53,995
Second year	57,468
Third year	52,582
Fourth year	39,293
Fifth year and thereafter	63,001
	----- 266,339 =====

5. Koor Corporate Venture Capital's commitment for additional investments in venture capital funds, and in start-up companies as at the balance sheet date is 36 million dollars. According to the agreement of intent to sell several VC Funds (see Note 3H3), Koor CVC's commitment for additional investment will be reduced to 14 million dollars.
6. During 2002, consolidated companies of M-A Industries signed long-term supply contracts with international companies for 17.3

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million dollars per year for a period of five years.

Note 19 - Convertible Securities of Investee Companies

Option warrants to employees:

Certain investees issued options to their employees until 2001 inclusive. Employee entitlement to such options is 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(3).

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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:

	December 31, 2002		
	Authorized	Issued and outstanding	Authorized
Number of shares:			
Ordinary shares of a par value of NIS 0.001 (1) (3)	84,557,334	16,506,982	84,557,334
Deferred shares of a par value of NIS 0.001 (2) (3)	15,167,666	14,531,956	15,167,666
Amount in nominal NIS:			
Ordinary shares of a par value of NIS 0.001	84,557	16,507	84,557
Deferred shares of a par value of NIS 0.001	15,168	14,532	15,168

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- (1) These shares are listed on the Tel Aviv Stock Exchange (TASE). On December 31, 2002 the share price on the TASE was NIS 48.60.

The ADS, each of which represents 0.2 ordinary shares of a par value of NIS 0.001 (hereinafter - Ordinary Shares), are traded in New York Stock Exchange (NYSE). The ADS price on the NYSE on December 31, 2002 was 2.1 dollars.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

A. Share capital is composed as follows: (cont'd)

- (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 distribution of a dividend of any kind.
- (3) On the balance sheet date, subsidiaries hold 15,799 Ordinary Shares and 12,950,864 deferred shares. The amount present from the shareholders' equity as at the balance sheet date is NIS 277,692 thousand, adjusted.
- (4) A consolidated subsidiary of Koor - Koor Trusts (1995) Ltd. (voluntary liquidation) - holds 624,577 Ordinary Shares of Koor which were issued to it as part of the implementation of the 1995 and 1997 options plan of the Company. 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 their grant, 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 make the shares deferred shares. Deferral of the shares will be discussed by the next General Meeting of the Shareholders of Company.

B. Buy-back of Company shares

On December 31, 2001 the Company purchased 154,637 ordinary shares, of the Company, from a subsidiary at the market price. The transaction was handled according to the Securities Regulations (Percentage of Transactions Between a Corporation and its Controlling Shareholders in Financial Statement), 1996.

On April 7, 2000 the Board of Directors of Koor resolved to approve a framework of 50 million dollars for buying back ordinary shares of Koor. In the framework, which has been fully utilized in year 2000,

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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.

The Company holds a total of 693,229 of its 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)

C. Stock options to senior employees

1. 1997 plan:

On May 27, 1997, 134,547 stock options were allotted under this plan, and on November 6, 1997 another 54,421 stock options were allotted.

On March 22, 2000, the Board of Directors of Koor resolved to amend the plan so that for an employee who resigned and who hold 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 (hereinafter - Amendment of the exercise period for employees who resign).

On August 6, 2000, the Board of Directors of Koor resolved that for Company employees who are not interested 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 date of its entitlement (hereinafter - "Amendment of extension of the exercise period").

On November 15, 2001, the Board of Directors of Koor resolved that for Company employees on the date of the resolution who are not interested 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).

Balance of stock option not exercised -----	Exercise price -----	Exercise date -----
5,039	NIS 101.38	05/2005
31,282	NIS 101.38	11/2005
-----	-----	-----
36,321		
=====		

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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 (cont'd)

2. 1998 plan:

On August 30, 1998, the 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 option under this Plan was allotted on different dates, and after their expiry following retirement, 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 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 the Board of Directors approved, with reference to stock option holders, under this Plan, who are not interested parties, Amendment of the exercise period for employees who resign. 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 date of entitlement to exercise them fell before 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 interested 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 date of the resolution and who are not interested parties in the Company.

Balance of stock option not exercised -----	Exercise price -----	Exercise date -----
77,161	\$ 108.90	07/2003
166,997	NIS 101.38	07/2006
----- 244,158 -----		

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 (cont'd)

3. 2000 Plan:

On August 6, 2000, the Board of Directors of the Company approved the 2000 stock options plan, which was previously approved on June 14, 2000 by the Executive Committee of the Board of Directors. The main points of the plan are these:

1. A total framework was approved for the allotment of 400,000 stock options theoretically exercisable for up to 400,000 ordinary shares of the Company, i.e. about 2.5% of the issued share capital of the Company.
2. 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.
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. Since the underlying shares will be allotted only against the monetary bonus, the employees will not be required to pay the exercise price at the date of exercise of the options. This price will serve only for computation of the amount of the monetary bonus.
5. The options are designated for Company employees who are not interested parties in the Company and will not become interested parties in the Company as a result of allotment of the stock options.
6. The entitlement to exercise the stock options will apply in accordance with a division of the options into three batches, so that at the end of the first year from the determining date (June 14, 2000) or from the date on which the employee started work in the Company (whichever is the later), the entitlement to exercise one third of the quantity allotted will come into being, and the remaining two thirds of the quantity allotted at the end of each year of the two years thereafter. The exercise period of each option that comes into being is 5 years from the date on which the entitlement came into being.
7. On October 5, 2000, the total quantity of 400,000 stock options was allotted to a trustee.

Movement in options during 2002 was as follows:

1997 Plan	1998 Plan	2000 Plan	Total
-----	-----	-----	-----

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Balance as at beginning of year	120,938	361,421	125,000	607,359
Granted	-	-	40,000	40,000
Exercised	-	(12,000)	-	(12,000)
Expired	(84,617)	(105,263)	(3,333)	(193,213)
	-----	-----	-----	-----
Balance as at end of year	36,321	244,158	161,667	442,146
	=====	=====	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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 dollar. Those subsidiaries neither hold nor issue financial instruments for trading purposes.

B. Details of the open foreign exchange transactions made to hedge the company's and subsidiaries' assets and liabilities in foreign currency as at December 31, 2002:

	Forward Transaction	Call options	Put options
	-----	-----	-----
	NIS thousands		
	-----	-----	-----
Purchase of Dollars in exchange for:			
NIS	14,211	23,219	92,845
European currencies	132,636	204,165	37,896
Brazilian Real	146,847	165,795	78,161
	-----	-----	-----
	293,694	393,179	208,902
	=====	=====	=====
Sale of Dollars in exchange for:			
NIS	87,635	87,161	62,055
European currencies	715	179,059	100,898
Brazilian Real	146,847	46,896	46,896
	-----	-----	-----
	235,197	313,116	209,849
	=====	=====	=====

C. The Company and its consolidated companies signed interest swap agreements totaling NIS 850 million.

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- D. The Company signed an agreement for an interest rate swap (IRS) for NIS 616 million, and for a dollar - CPI swap of NIS 100 million.

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

- E. Fair value of financial instruments:

Condensed data of monetary assets and liabilities, whose fair value as at December 31, 2002, 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	981	430
Debentures and convertible debentures	444	410

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 and other financial instruments is approximate or similar to at their fair value.

- F. Credit risk of trade receivables:

	NIS millions

Condensed data of credit risk of trade receivables as at December 31, 2002:	
Receivables insured by credit card companies	561
Receivables insured by foreign trade risk insurance	2
Receivables - Government authorities and Bezeq	75
Other receivables, including checks and credit card companies	1,440

Total, including non-current receivables	2,078
	=====

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

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

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Notes to the Financial Statements

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

G. Linkage terms of monetary balances:

(1) Consolidated

	December 31, 2002		
	In foreign currency or linked thereto	Linked to the CPI	Unli
	NIS thousands		
Assets			
Current assets:			
Cash and cash equivalents	708,047	-	97,2
Short-term deposits and investments	363,285	466,594	228,5
Trade receivables	1,664,987	25,139	351,0
Other accounts receivable	209,888	25,030	103,8
Investments and other long-term receivables	229,772	81,619	5,5
	----- 3,175,979 =====	----- 598,382 =====	----- 786,1 =====
Liabilities			
Current liabilities:			
Credits from banks and others (not including current maturities of long-term liabilities)	997,072	-	333,0
Trade payables	909,595	-	296,3
Other accounts payable	678,356	154,706	573,6
Long-term loans and debentures (including current maturities)	3,317,856	2,127,179	7,8
	----- 5,902,879 =====	----- 2,281,885 =====	----- 1,210,7 =====

[table continued]

	December 31, 2001		
	In foreign currency or linked thereto	Linked to the CPI	Unli
	NIS thousands		

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Assets			
Current assets:			
Cash and cash equivalents	664,470	17,213	175,
Short-term deposits and investments	212,181	223,071	207,
Trade receivables	1,849,402	31,122	365,
Other accounts receivable	286,705	40,311	148,
Investments and other long-term receivables	392,911	427,299	1,
	-----	-----	-----
	3,405,669	739,016	897,
	=====	=====	=====
Liabilities			
Current liabilities:			
Credits from banks and others (not including current maturities of long-term liabilities)	969,491	-	311,
Trade payables	1,079,631	4,500	280,
Other accounts payable	428,202	99,543	580,
Long-term loans and debentures (including current maturities)	3,714,263	1,868,834	11,
	-----	-----	-----
	6,191,587	1,972,877	1,183,
	=====	=====	=====

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Koor Industries Ltd.

Notes to the Financial Statements

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

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

(2) Company

	December 31, 2002		
	In foreign currency or linked thereto	Linked to the CPI	U
	NIS thousands		
Assets			
Current assets:			
Cash and cash equivalents	14,762	-	10
Short-term deposits and investments	257,099	462,066	158
Other receivables	18,957	-	31
Short term loans to investees companies	-	18,915	
Other investments and receivables	118	55,207	
Investments and other long-term receivables:			

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Investees companies (including current maturities of loans)	6,063	116,953	1,407
	-----	-----	-----
	296,999	653,141	1,606
	=====	=====	=====
Liabilities			
Current liabilities:			
Credits from banks and others (not including current maturities of long-term liabilities)	179,532	-	18
Trade payables	68	-	1
Other accounts payable	7,692	15,195	56
Long-term liabilities (including current maturities of loans)	629,450	2,085,633	
	-----	-----	-----
	816,742	2,100,828	75
	=====	=====	=====

[table continued]

	December 31, 2001		
	In foreign currency or linked thereto	Linked to the CPI	Unli

	NIS thousands		

Assets			
Current assets:			
Cash and cash equivalents	4,561	-	57,
Short-term deposits and investments	160,534	216,130	131,
Other receivables	1,849	-	14,
Short term loans to investees companies	-	37,401	
Other investments and receivables	172,080	396,923	
Investments and other long-term receivables:			
Investees companies (including current maturities of loans)	6,020	157,506	1,427,
	-----	-----	-----
	345,044	807,960	1,630,
	=====	=====	=====
Liabilities			
Current liabilities:			
Credits from banks and others (not including current maturities of long-term liabilities)	305,800	-	37,
Trade payables	34	-	
Other accounts payable	13,604	14,823	37,
Long-term liabilities (including current maturities of loans)	1,185,172	1,814,967	
	-----	-----	-----
	1,504,610	1,829,790	75,
	=====	=====	=====

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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	
	2002	
		NIS thousand
Credit from banks	439,449	
Loans from banks and others and debentures (including current maturities), see Note 15, and also C and D below	1,831,996	1,
	-----	---
	2,271,445	1,
	=====	==

- C. For the purpose of securing debentures convertible into Koor shares, Koor has undertaken not to pledge its assets in future, except in accordance with the terms stipulated by the trust deeds. See also Note 15B.

- D. The convertible debentures, which were issued by M-A Industries, are guaranteed by first level fixed symbolic lien with a deposit to the amount of NIS 1 for the Trustee of the convertible debenture holders (see Note 15B)

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

Note 22 - Liens and Guarantees (cont'd)

- E. Guarantees to banks and others for loans and for assuring credit

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lines and other guarantees in favor of:

	Consolidated		Company	
	December 31		December 31	
	2002	2001	2002	2001
	NIS thousands		NIS thousands	
Subsidiaries	-	-	295,088	411,407
Affiliates	6,962	6,868	6,962	6,280
Others	112,147	47,613	15,427	24,713
	119,109	54,481	317,477	442,400
	=====	=====	=====	=====

- 1) In certain cases when advances from customers are received, a subsidiary provides its customers with bank guarantees to secure the advances. Guarantees in excess of the amount of advance payments stated as liabilities in the balance sheet, amounted to NIS 435,103 thousand, and NIS 385,330 thousand, as at the years ending December 31, 2002 and 2001, 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 112 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 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 63 million dollars. (December 31, 2001 approximately 58 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 essential different from the representation made, the buyer will be entitled to a compensation from Tadiran. Koor is a guarantor to the commitments of Tadiran.

- 6) There are also guarantees, in an unlimited amount, to ensure due performance of work and customer agreements, product warranty, advance payments received and guarantees on behalf of liabilities to customs and excise authorities.

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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:

	2002	Year ended 2001
	-----	-----
		NIS thousand

Local:

Industrial operations	917,054	931,900
Trading operations	504,253	556,000

Abroad:

Industrial operations - export and international operations	5,256,669	5,450,600
Trading operations	558,217	668,100

	7,236,193	7,606,800
	=====	=====

(1) Not including agency sales	321,178	364,600
	=====	=====

(2) Including sales to major customer	423,424	681,400
	=====	=====

(3) Including sales under long-term credit arrangements (see also Note 2Q)	-	77,000
	=====	=====

(4) Revenues and expenses relating to work performed under long-term contracts:		
Revenues	1,385,743	1,112,000
Costs	(968,148)	(914,000)
	-----	-----
	417,595	197,900
	=====	=====

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Koor Industries Ltd.

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

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	2002	2001
	NIS thousand	
Industrial operations:		
Materials	2,819,265	3,000,000
Labor	923,567	980,000
Subcontracted work	69,316	50,000
Depreciation and amortization	193,365	190,000
Research and development expenses, net (*)	261,237	280,000
Other manufacturing expenses	503,169	450,000
	4,769,919	4,980,000
Less - expenses charged to cost of fixed assets	10,549	10,000
	4,759,370	4,970,000
Decrease in inventory of goods and work in process	13,308	20,000
	4,772,678	4,990,000
Decrease (increase) in inventory of finished goods	(212,763)	(200,000)
	4,559,915	4,960,000
Trading operations:		
Merchandise	543,782	520,000
Labor	70,651	100,000
Depreciation	29,720	30,000
Others	213,840	240,000
	857,993	900,000
	5,417,908	5,870,000
(*) Net of grants and participations, net	803	120,000

C. Selling and marketing expenses - consolidated:

	2002	2001
	NIS thousand	
Salaries	256,201	259,900
Commissions	98,894	111,200
Advertising expenses	46,460	45,900
Depreciation and amortization	80,358	66,800
Other	348,518	346,800

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830,431
=====

830,7
=====

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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			C	
	Year ended December 31			Year ended	
	2002	2001	2000	2002	2001
	-----			-----	
	NIS thousands			NIS	
	-----			-----	
Salaries	238,596	239,718	291,929	24,810	17,7
Bad and doubtful debts	34,585	30,559	27,503	-	
Depreciation and amortization	31,389	29,553	25,667	1,697	1,
Other	194,201	234,436	228,350	22,554	23,
	-----	-----	-----	-----	-----
	498,771	534,266	573,449	49,061	42,
	=====	=====	=====	=====	=====

E. Financing expenses (income), net:

	Consolidated			C	
	Year ended December 31			Year ended	
	2002	2001	2000	2002	2001
	-----			-----	
	NIS thousands			NIS	
	-----			-----	
In respect of convertible debentures	18,167	6,702	3,674	1,161	5,
In respect of debentures	664	2,345	4,145	-	
In respect of long-term loans	245,338	371,854	195,642	173,554	244,
In respect of					

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short-term loans and credit	171,715	218,633	117,089	15,313	44,
Amortization of capital raising expenses	2,293	753	1,676	-	
Losses (gains) from marketable securities, net	44,959	(53,399)	38,662	36,377	(45,
Interest capitalized to fixed assets and work in process	(15,145)	(15,468)	(3,618)	-	
Expenses (income) from investees, net	-	-	-	6,603	(5,
Revenue from deposits and others, net	(67,814)	(90,675)	(28,014)	(29,361)	(40,
	-----	-----	-----	-----	-----
	400,177	440,745	329,256	203,647	202,
	=====	=====	=====	=====	=====

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Koor Industries Ltd. (An Israeli Cor

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 December	
	2002	2001
	NIS thousands	
	-----	-----
Sale of investments and activities in investees (including changes in rates of holding)	348,920	(60,542)
Expenses relating to the termination, sale of activities and sale and write down of assets, net	(167,560)	(409,792)
Supplemental severance pay and pensions	(129,437)	(84,312)
Management services:		
Proportionately consolidated companies	-	-
Affiliate companies	2,725	2,334
Joint ventures, net	-	1,528
Compensation for damages	38,686	938
Amortization of goodwill	(92,835)	(85,172)
Miscellaneous, net	5,437	395
	-----	-----
	5,936	(634,623)

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2. Company	Year ended December	
	2002	2001
	NIS thousands	
Profit (loss) from sale of investments in investee companies	343,088	(54,757)
Changes in value of long-term assets	(10,229)	-
Rental income, net*	9,396	-
Capital gain from sale of fixed assets	29,750	2
Miscellaneous, net	447	1,856
	372,452	(52,899)
* Depreciation included in the Item	1,259	-

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Koor Industries Ltd. (An Israeli Cor

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

1. Consolidated

	Year ended December 31	
	2002	2001
	NIS thousands	
Affiliate companies, net (1)	250,423	695,897
Amortization of goodwill (2)	6,511	1,235,026
	256,934	1,930,923
Dividend received	-	-
(1) Including loss from a discontinued operation in an affiliate	113,042	100,253

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(2) Including write-off of goodwill in an affiliate	-	1,136,351
	=====	=====

2. Company

	Year ended December 31	
	2002	2001

	NIS thousands	

Equity of Koor in operating results for the year (1)	(917,894)	(1,170,673)
Amortization of goodwill (2)	(23,604)	(1,238,127)
	-----	-----
	(941,498)	(2,408,800)
	=====	=====
Dividend received	29,214	875,200
	=====	=====
(1) Including loss from a discontinued operation in an affiliate	113,042	100,253
	=====	=====
(2) Including write-off of goodwill in investee companies	-	1,136,351
	=====	=====

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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

H. Results of discontinued operations

	Year ended December 31	
	2001	2000

	NIS thousands	

Pre-tax loss on income	(30,568)	(80,758)
Effect of tax	-	(438)
Minority share	727	38,024
	-----	-----
	(29,841)	(43,172)
	-----	-----

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Capital gain from sale of discontinued operation		
Capital gain	-	413,772
Effect of tax	-	(139,313)
	-----	-----
	-	274,459
	-----	-----
	(29,841)	231,287
	=====	=====

In 2001, the construction and infrastructures segment included USM, and in 2000 it included Middle East Tubes Ltd. and Mashav Enterprise and Development Ltd., which were sold during 2000.

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Koor Industries Ltd. (An Israeli

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

	Year ended December 31				
	2002		2001		
	Consolidated companies	Affiliated companies	Consolidated companies	Affiliated companies	act dis
	NIS thousands		NIS thousands		
Income:					
Management services	36,257	-	34,817	-	
Administrative expenses - Salary and other administrative expenses	9,175	-	8,145	-	
Financing income (expenses), net	(6,605)	2	6,054	6	
Rental income, net	667	-	-	-	

[table continued]

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	Year ended December 31			
	2000			
	Consolidated companies	Consolidated companies by proportional consolidation	Affiliated companies	Companies whose activity was discontinued
	NIS thousands			
Income:				
Management services	42,734	-	-	-
Administrative expenses - Salary and other administrative expenses	4,826	-	-	-
Financing income (expenses), net	623	(213)	3	226
Rental income, net	-	-	-	-

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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 the 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 fine chemicals, intermediates, specialty aroma chemicals, industrial chemicals, antioxidants and nutraceuticals.

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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 3G)) and in 2000 the segment of construction and infrastructure included the companies - Middle East Tubes Co. Ltd. and Mashav Enterprise and Development Ltd., which were sold during 2000.

- B. Segment sales include products sold and services rendered to unrelated customers, which are not part of the group. Inter-industry segment sales are immaterial and are based primarily on prices determined in the ordinary course of business. Accordingly, these sales are not presented separately.

Segment operating earnings include all costs and expenses directly related to the relevant segment and an allocation of expenses from which more than one segment may benefit. 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. (

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

- C. See Note 23H for details of the discontinuation of activities.
- D. Data regarding business segments of the Koor Group:

Year ended December 31				
2002	%	2001	%	NIS t
NIS thousands		NIS thousands		

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Revenues from
sales and services:

Segments:

Telecommunications	829,749	11.47	1,240,788	16.31	2,3
Defense electronics	1,719,972	23.77	1,439,561	18.93	1,2
Agro-chemicals and other chemicals	4,220,018	58.32	4,180,156	54.95	3,7
Venture capital investment	-	-	88,519	1.16	
Others	466,454	6.44	657,783	8.65	1,0
Total segments	7,236,193	100.00	7,606,807	100.00	8,4

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Koor Industries Ltd. (

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

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

	Year ended December 31				
	2002 NIS thousands	%	2001 NIS thousands	%	NIS t
Pre-tax earnings (losses):					
Operating earnings (loss) according to segments:					
Telecommunication	(182,055)	(34.43)	(216,829)	(55.73)	2
Defense electronics	80,368	15.20	57,266	14.72	
Agro-chemicals and other chemicals	671,158	126.93	598,329	153.79	4
Venture capital investments	(8,046)	(1.52)	(8,452)	(2.17)	
Others	(32,677)	(6.18)	(41,269)	(10.61)	
Total segments	528,748	100.00	389,045	100.00	8

Joint general

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expenses	(39,665)	(23,722)	(
	-----	-----	-----
Total operating earnings	489,083	365,323	7
Financing expenses, net	(400,177)	(440,745)	(3
Other income (expenses), net	5,936	(634,623)	1
Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation	(398,411)	-	
	-----	-----	-----
Pre-tax earnings (losses)	(303,569)	(710,045)	5
	=====	=====	=====

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Koor Industries Ltd. (

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

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

The Koor Group's equity in the excess of earnings over losses (the excess of losses over earnings) of affiliates, net, is as follows:

	Year ended December 31				NI
	2002		2001		
	NIS thousands	%	NIS thousands	%	
	-----	-----	-----	-----	-----
Telecommunications	(251,744)	97.98	(1,920,828)	99.48	
Defense electronics	(175)	0.07	(1,114)	0.06	
Venture capital investments	(335)	0.13	(84)	0.00	
Others	(4,680)	1.82	(8,897)	0.46	
	-----	-----	-----	-----	-----
	(256,934)	100.00	(1,930,923)	100.00	
	-----	-----	-----	-----	-----

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	December 31		
	2002		
	NIS thousands	%	NIS thousands
Identifiable assets:			
Segments:			
Telecommunications	941,432	8.15	1,284,334
Defense electronics	1,406,306	12.17	1,193,008
Agro-chemicals and other chemicals	7,787,755	67.41	6,641,114
Venture capital investments	289,745	2.51	336,354
Others	1,127,041	9.76	1,666,238
Total segments	11,552,279	100.00	11,121,048
Corporate assets	1,090,555		1,214,470
Affiliates**	1,061,302		1,438,130
	13,704,136		13,773,648

* Reclassified.

** Including an investment in ECI as at December 31, 2002 and 2001 in the amount of NIS 825 million and NIS 1,165 million respectively, which operates in the telecommunications segment.

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Koor Industries Ltd. (

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

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

	December 31		
	2002		*2001
	NIS thousands	%	NIS thousands
Identifiable liabilities			
Segments:			
Telecommunications	402,716	13.21	429,468
Defense electronics	929,873	30.51	724,902

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Agro-chemicals and other chemicals	1,497,427	49.13	1,368,690
Venture capital investments	-	-	12,391
Others	217,986	7.15	262,041
	-----	-----	-----
Total segments	3,048,002	100.00	2,797,492
		=====	
Corporate liabilities	81,375		67,275
	-----		-----
	3,129,377		2,864,767
	=====		=====

* Reclassified

	Year ended December 31			
	2002		*2001	
	NIS thousands	%	NIS thousands	%
	-----	-----	-----	-----
Capital investments:				
Segments:				
Telecommunications	15,853	1.19	60,832	6.13
Defense electronics	46,632	3.48	54,209	5.46
Agro-chemicals and other chemicals	1,264,935	94.53	837,542	84.37
Venture capital investments	-	-	2,984	0.30
Others	10,665	0.80	37,187	3.74
	-----	-----	-----	-----
Total segments	1,338,085	100.00	992,754	100.00
		=====		=====
Discontinued activity	-		198	
Corporate assets	110		394	
	-----		-----	
	1,338,195		993,346	
	=====		=====	

* Restated

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Koor Industries Ltd. (

Notes to the Financial Statements

Note 24 - Business Segments (cont'd)

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

	Year ended December 31			
	2002		*2001	
	NIS thousands	%	NIS thousands	%
Depreciation and amortization:				
Segments:				
Telecommunications	58,772	13.67	63,749	15.55
Defense electronics	50,782	11.81	51,692	12.61
Agro-chemicals and other chemicals	283,832	66.03	243,298	59.34
Venture capital investments	-	-	1,895	0.46
Others	36,480	8.49	49,366	12.04
Total segments	429,866	100.00	410,000	100.00
Discontinued activity	-		12,463	
Corporate assets	1,852		2,797	
	431,718		425,260	

E. Industrial operations - export sales and foreign industrial operations by geographical destination:

	Year ended December 31		
	2002	2001	2000
	NIS thousands		
North America	1,185,258	1,239,027	1,809,221
Europe	2,009,623	1,683,806	1,736,690
South America	894,477	1,469,837	1,451,405
Asia and Australia	1,022,731	920,474	710,919
Africa	144,580	137,503	140,025
	5,256,669	5,450,647	5,848,260

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Koor Industries Ltd. (An Israeli Corporation)

Notes to the Financial Statements

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Note 24 - Business Segments (cont'd)

F. Assets by geographic location of manufacturing operation *

	December 31	
	2002	2001
	NIS thousands	NIS thousands
	-----	-----
Israel	11,589,786	11,399,923
Brazil	1,531,257	1,847,251
United States	181,112	194,974
Others	401,981	331,500
	-----	-----
	13,704,136	13,773,648
	=====	=====

G. Capital investments in assets by geographic location*

	December 31	
	2002	2001
	NIS thousands	NIS thousands
	-----	-----
Israel	1,263,124	956,474
Brazil	57,668	31,744
United States	9,645	1,872
Others	7,758	3,058
Discontinued activities -Israel	-	198
	-----	-----
	1,338,195	993,346
	=====	=====

* Restated.

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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.

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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.

Consequently, and given the large number of the above mentioned entities, it is not possible to accurately determine the scope and scale of these transactions. The balance of liabilities owed to Bank Hapoalim B.M. as at December 31, 2001 is NIS 2,498 million.

C. Benefits to interested parties

1. Directors (*)

	Year ended December 31		
	2002	2001	2000
	NIS thousands		
Directors not employed by the Company:			
Annual compensation and participation in meetings:			
Claridge Group	250	160	-----
Number of directors	3	3	-----
Poalim Assets (Shares) Ltd.	97	132	-----
Number of directors	2	2	-----
Other directors	543	491	-----
Number of directors	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

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Note 25 - Transactions and Balances with Interested Parties (cont'd)

- C. Benefits to interested parties (cont'd)
- 2. Consultancy services

	Year ended December 31		2000
	2002	2001	
----- NIS thousands -----			
Claridge	1,907	1,835	1,835
Poalim Capital Markets and Investment Ltd.	1,461	1,835	1,835

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 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.

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Koor Industries Ltd. (An Israel

Notes to the Financial Statements

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	
	2002	2001
----- NIS thousands -----		

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Earnings (losses) used in the computation of basic earnings (loss) per NIS 1 par value of shares	(781,704)	(2,701,857)
Add - theoretical earnings resulting from Conversion of convertible debentures series F	-	-
Net earnings (loss) used in the computation of fully diluted earnings (loss) per NIS 1 par value of shares	(781,704) =====	(2,701,857) =====

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	
	2002	2001
In the computation of basic earnings (loss) per share	15,173,291	15,188,463
Add - theoretical share capital resulting from Conversion of convertible debentures Series F	-	-
Total share capital used in the computation of fully diluted earnings (loss) per share	15,173,291 =====	15,188,463 =====

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 6% (December 31, 2001 - 4%, December 31, 2000 - 7%) for securities linked to the CPI.

Note 27 - Events Subsequent to the Balance Sheet Date

- A. Pursuant to a decision of the Company's management to concentrate the holdings in public companies, the balance of ECI shares (30,049,322 shares) was transferred to a wholly-owned subsidiary, in accordance with Section 104A of the Income Tax Ordinance, in exchange for an allotment of shares in the subsidiary.
- B. On an agreement of intent for the sale of some the investments of Koor Corporation Venture Capital, see Note 3H(3).
- C. In March 2003, Telrad sold half of the ECTel shares in consideration of approximately NIS 14 million.

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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 ("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. (See Note 2B).

In accordance with US GAAP:

The financial statements are expressed in current nominal historical monetary terms.

Measuring on the basis of the change in the CPI, which 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 in accordance with the accepted rules governing similar asset exchange 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 not of a temporary nature. Therefore, the Company wrote-off the balance of the goodwill in the amount of NIS 167 million.

In 2001 Tadiran sold its shareholding in ECI to Koor. Therefore, the deferred taxes which was created during the merger, were realized and an income tax in the amount of NIS 136 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:
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 of December 31, 2002, the entire balance of the deferred interest was written off (December 31, 2001 the deferred interest was NIS 4,904 thousand).

- 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.

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Koor Industries Ltd. (An Israeli Corporation)

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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)

4. Deferred taxes (cont'd)

b) (cont'd)

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.

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 on 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 under the "alternative benefits" track, which may be distributed, since it is the Group's policy not to initiate such a dividend distribution.

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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)

4. Deferred taxes (cont'd)

In accordance with US GAAP:

A reserve for deferred tax should be provided on the undistributed tax-exempt earnings of local subsidiaries established subsequent to December 15, 1992, as their distribution results an additional tax.

5. Handling of "benefit component" in respect of options issued to employees

In accordance with Israeli GAAP:

The overall "benefit component", in respect to options granted to employees of Koor, is not charged as an expense in the statement of operations.

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, when measuring the "benefit". 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 computed on the basis of the full benefit valued as at that date, and the proportional part of the period which has passed, in relation to the opening balance of that period.

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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)

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A. Differences between Israel GAAP and US GAAP (cont'd)

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 are stated at cost (regarding debentures, including accumulated interest), except where market value is lower, and the decline in value is not considered to be temporary.

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 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 of the available for sale type is reported as a separate item within shareholders' equity.

7. Attribution 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 options, as a package, are attributed to debentures according to their par value while the remainder of the proceeds is attributed to the share options.

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 over the term of debentures.

8. Dividends

In accordance with Israeli GAAP:

Until 2001, a dividend proposed for payment by the date of approval of the financial statements is included as a current liability in the balance sheet. Starting 2002, the liability in respect of a dividend proposed or announced after the balance sheet date will be reflected in the financial statements only in the period in which it was announced (see Note 2B(h)).

In accordance with US GAAP:

Such a dividend is reflected only in the notes and is not recorded in the balance sheet as a liability until declared.

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Koor Industries Ltd. (An Israeli Corporation)

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. Convertible securities of investee companies

In accordance with Israeli GAAP:

According to the provisions of 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 its holdings, because of share options being exercised or debentures being converted, is recorded only at the time of exercise or conversion.

10. Employee severance benefits as a part of an efficiency program

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, 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.

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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)

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11. 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. 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, 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 shares considered outstanding during the year.

12. 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.

13. 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.

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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)

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14. Revenue recognition - SAB 101:

In accordance with US GAAP:

During the fourth quarter of 2000, the US SEC published Staff Accounting Bulletin No. 101 (hereinafter - "SAB 101"), which sets stringent rules for revenue recognition, which are to be implemented retroactively to the beginning of the year, 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 set out in accordance with US GAAP.

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 40,214 thousand.

15. Exchange of assets:

In accordance with Israeli GAAP:

In 2001 NetEye shares were transferred from Telrad to ECTel, as described in Note 3E(4), and 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 29,726 thousand was recorded.

In 2001 Millenia shares previously held by the minority shareholders, were purchased in exchange for M-A Industries' shares (as described in Note 3C(5)). 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 6,563 thousand was recorded.

In 2002 a consolidated company of Telrad was merged with another company, as described in Note 3E(4). 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 15,395 thousand was recorded.

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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)

16. Financial Derivatives

In accordance with Israeli GAAP:

The Company applied FAS 52 and EITF 90-17 as to its financial derivatives.

In accordance with US GAAP:

As of January 1, 2001, the Company applied FAS 133 to the Derivatives based on the cumulative effect at the beginning of the year (NIS 2,771 thousand).

17. 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 undeferred liability.

In accordance with US GAAP:

The transaction does not meet the criteria set out in FAS 140 for the classification as a sale transaction. Therefore, the transaction was treated as a secured borrowing, and the balance of customers increased by 101.8 million dollars in 2002, and by 95.5 million dollars in 2001, against a similar increase in short-term credit.

18. ECI's Depreciation

In accordance with Israeli GAAP:

On September 30, 2002 the Company wrote down its investment in ECI by NIS 132 million (see Note 3A(11)). Of the NIS 132 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 107 million. The balance of NIS 25 million was charged to the statement of income and under the item "Group equity in the operating results of affiliates". Due to the fact that Koor's share in ECI's shareholders' equity is higher than its investment in ECI after the Impairment, the excess of Koor's share in the equity over the investment was attributed first to intangible assets in ECI and the remainder to non-monetary items in ECI.

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.

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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)

19. 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 821 million was recorded in the adjustment note in 2002.

20. 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:

	Year ended December 2002
	\$ thousands
Net loss of ECI based on its reported profit according to US GAAP	(155,6)
Adjustments:	
Timing differentials for revenue recognition for implementation of SAB 101	(1,5)
Finance income - FAS 133	(3,6)
Tax income - deferred taxes	6
Cumulative effect of change in accounting method - FAS 142	5
Write-down of excess cost attributed to intangible assets	(1,8)
Discontinued operation	(5)
Decline in value of assets	(5)
Net loss of ECI according to Israeli GAAP	(162,5)

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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

1. Statements of operations:

	Year ended December 31		
	2002	2001	2000
	NIS thousands		
a) Net earnings (loss) as reported, according to Israeli GAAP	(781,704)	(2,701,857)	289,000
Amortization of deferred interest in respect of the restructuring of debts	4,904	6,855	9,000
Deferred taxes	6,019	56,759	38,000
Salary expenses in respect of share options issued to employees	495	(19,085)	(24,000)
Gain (loss) from marketable securities, net	55,185	(13,895)	42,000
Provisions for anticipated losses from realization of convertible securities in investee companies	(525)	(8,247)	(2,000)
Amortization of discount in respect of convertible debentures	(344)	(1,088)	(2,000)
Severance pay arising from an efficiency program	7,267	2,454	(12,000)
Capital gain from a decline in holding in Consolidated company	6,318	-	-
Acquiring an investment in stage	-	4,741	-
Venture capital investments	(16,641)	784	20,000
Amortization of goodwill in accordance with a merger of ECI and TTL	-	(167,329)	(25,000)
Temporary differences resulting from recognition of revenue arising from application of SAB 101	2,273	36,753	(4,000)
Profit from exchange of assets	15,395	36,289	-
Discontinuing activities	851	-	-
Impairment in value	776	-	-
Write-down of excess cost attributed to fixed assets	(14,618)	-	-
Translation differences of autonomous investee in voluntary liquidation	(107,144)	-	-
Amortization of goodwill and other assets	88,910	-	-
Provision for impairment in value	5,195	-	-
Linkage difference expenses	(4,759)	-	-
Derivatives (FAS 133)	(27,522)	(1,495)	-
	22,035	(66,504)	40,000

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Income taxes	(955)	131,153	(3,
Minority interests in respect of the above differences	(14,747)	(40,914)	(14,
	6,333	23,735	21,
Cumulative effect as beginning of the year	(821)	2,771	(40,
	5,512	26,506	(18,
Net income (loss) according to US GAAP	(776,192)	(2,675,341)	270,

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Koor Industries Ltd. (An Israeli Corporati

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)

1. Statements of operations (cont'd):

b) Earnings (loss) per ordinary share

	Year ended December 31		
	2002	2001	2000
	NIS thousands		
Basic earnings per ordinary share:			
As reported according to Israeli GAAP	(51.518)	(177.89)	1
As reported according to US GAAP:	(51.15)	(176.14)	1
Weighted average of number of shares and share equivalents according to US GAAP	15,173,291	15,188,463	15,384
Diluted earnings (loss) per ordinary share:			
As reported according to Israeli GAAP	(51.518)	(177.89)	1
As reported according to US GAAP:	(51.15)	(176.14)	1

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Weighted average of number of shares
and share equivalents according to
US GAAP

15,173,291
=====

15,188,463
=====

15,597
=====

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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:

	December 31			
	2002			
	As reported	Adjustments	US GAAP	As reported
NIS thousands				
Investments in affiliates	1,061,302	(28,840)	1,032,462	1,438,130
Customers (9)	2,041,156	471,517	2,512,673	2,245,732
Investments and other receivables	582,520	35,292	617,812	1,156,791
Intangible assets after amortization (10)	2,442,865	111,566	2,554,431	1,463,228
Total assets	13,704,136	589,535	14,293,671	13,773,648
Other payables (7)	1,421,245	(2,478)	1,418,767	1,128,752
Deferred interest (3)	-	-	-	-
Short-term liabilities (8)	2,359,985	482,227	2,842,212	1,846,459
Convertible debentures (4)	405,141	(18)	405,123	314,236
Deferred taxes (2)	212,469	92,308	304,777	196,787
Minority interests (6)	1,557,774	37,152	1,594,926	1,393,906
Capital reserve for "available for sale" securities (1)	-	(63,850)	(63,850)	-
Capital reserves (4) (5) (10)	2,490,435	166,894	2,657,329	2,186,389
Retained				

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losses (6)	(1,027,752)	(122,699)	(1,150,451)	(246,048)
Total				
shareholders'				
equity	1,760,352	(19,655)	1,740,697	2,238,010

- (1) Adjustment of value of investment securities to market value.
- (2) Change in deferred taxes.
- (3) Deferred gain on debt restructuring.
- (4) Debentures issued with stock options.
- (5) Share options issued to employees.
- (6) Effects of the reconciliation to US GAAP.
- (7) Provision for employee severance benefits resulting from an efficiency program, financial derivatives.
- (8) Securitization agreement.
- (9) Original differentials arising from the exchange of shares in the merger, and increasing the holdings in a consolidated company, as well as temporary differences with implementation of SAB 101, reversal of systematic provisions related to goodwill and intangible assets.
- (10) Transfer to statement of income of translation differences of autonomous investee in voluntary liquidation.

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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 earnings

"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		
2002	2001	2000
NIS thousands		

Net earnings (loss) according to US

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GAAP	(776,192)	(2,675,350)	270,747
	-----	-----	-----
Other comprehensive earnings, after tax:			
Adjustments from translation of financial statements of investee companies	403,029	289,031	(92,950)
Unrealized gains from securities (loss)	(55,185)	13,895	(43,748)
	-----	-----	-----
Total other comprehensive earnings*	347,844	302,926	(136,698)
	-----	-----	-----
Total comprehensive (loss) earnings	(428,348)	(2,372,424)	134,049
	=====	=====	=====
*Tax component included in the item	-	-	(1,051)
	=====	=====	=====

Note 29 - Events (Unaudited) Subsequent to the Date of the Independent Auditors' Report.

On June 5, 2003, Koor sold 9,356,517 shares in MA Industries, for NIS 105.3 million (approximately \$24.1 million on the date of sale) and the capital gain was about \$3.5 million. Upon consummation of the sale, Koor will hold 49.8% of the voting capital of MA Industries.

The Company is considering continuing the consolidation of the financial statements of MA Industries.

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Deloitte & Touche
Brightman Almagor

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
SCOPUS NETWORK TECHNOLOGIES LTD.

We have audited the accompanying consolidated balance sheets of Scopus Network Technologies Ltd. (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the period ended December 31, 2002. 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 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 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 statement presentation. We believe

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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, 2002 and 2001, and the consolidated results of its operations, changes in shareholders' equity and cash flows for each of the years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

The financial statements have been prepared in U.S. dollars, as explained in Note 2A.

/s/ Brightman Almagor & Co.

Brightman Almagor & Co.
Certified Public Accountants

Tel Aviv, Israel
April 1, 2003

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Auditors' Report to the Partners of

Koor Venture Capital

We have audited the accompanying balance sheets of Koor Venture Capital (hereinafter - "the Partnership") as at December 31, 2002 and 2001, and the related statements of operations, the result of its operations in partners' equity and cash flows, for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Partnership's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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 provide a reasonable basis for our opinion.

The investment in an investee company is presented at cost net of additional paid-in capital in respect to a transaction with a controlling interest, and not in accordance with the equity method, as required pursuant to the Statement of the Institute of Certified Public Accountants in Israel.

In our opinion, except for not presenting the investment in an investee company in accordance with the equity method as mentioned above, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2002 and 2001, 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

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31, 2002, in conformity with accounting principles generally accepted in Israel.

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 13, 2003

/s/ KOST FORER and GABBAY
KOST FORER & GABBAY
A Member of Ernst & Young Global

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24/3/2003

Auditors' Report to the Shareholders of

Solkoor Marketing and Purthasung Ltd. (hereinafter - "the Company")

We have audited the accompanying balance sheets of Solkoor Marketing and Purchasing Ltd. as at December 31, 2002 and 2001, and the related statements of operations, shareholders' equity, for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that our plan and perform the audit to obtain reasonable assurance about whether 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 audit the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001 and the results of their operations, the changes in shareholders' equity for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

As explained in notes, 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.

Sincerely yours,

/s/ Yosef Shimony

Yosef Shimony

F-125

24/3/2003

Auditors' Report to the Shareholders of

Koor Holding Ltd. (hereinafter - "the Company")

We have audited the accompanying balance sheets of Koor Holding Ltd. as at December 31, 2002 and 2001, and the related statements of operations, shareholders' equity, for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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 the reports of the auditors, provide 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, 2002 and 2001 and the results of their operations, the changes in shareholders' equity for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

As explained in notes, 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.

Sincerely yours,

/s/ Yosef Shimony

Yosef Shimony

Certified Public Accountants (Isr.)

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24 March, 2003

Auditors' Report to the Shareholders of

Koor Trusts (1995) Ltd. (hereinafter - "the Company")

We have audited the accompanying balance sheets of the Company as at December 31, 2002 and 2001, and the related statements of operations, shareholders' equity, for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001 and the results of their operations, the changes in shareholders' equity for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

As explained in notes, 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.

Sincerely yours,

/s/ Yosef Shimony

Yosef Shimony
Certified Public Accountants (Isr.)

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AUDITORS' REPORT

To the shareholders of

"ALDA" ISRAEL FOREIGN TRADE LTD.

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We have audited the accompanying balance sheets of "Alda" Israel Foreign Trade Ltd. ("the Company") as at December 31, 2002 and 2001, and the related statements of operations, changes in deficiency and cash flows for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and 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 company the investment in which on the equity basis of accounting totaled NIS 9.4 million and NIS 7 million as of December 31, 2002 and 2001, respectively, and the Company's share in the net income losses of which totaled NIS 3.4 million, NIS (9.4), and NIS 3.4 million for each of the three years, the last of which ended December 31, 2002, respectively. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for this certain company, is based solely on the reports of the other auditors.

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 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 provide a reasonable basis for our opinion.

In our opinion, except for the absence of information referred to in the preceding paragraph, based on our audits and 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 as of December 31, 2002 and 2001, and the results of its operations, the changes in its equity and its cash flows for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

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.

Without qualifying our opinion, we wish to draw attention that the Company has restated its financial statements for the year ended December 31, 2001 and 2000 in order to retroactively reflect the effect of the operating results of an investee.

Tel-Aviv, Israel
March 18, 2003

/s/ KOST, FORER & GABBAY

KOST, FORER & GABBAY
A Member of Ernst & Young Global

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Kost, Forer & Gabbay
3 Aminadav St.
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Fax: 972-3-5622555

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, 2002 and 2001, and the related statements of operations, changes in equity (deficiency) and cash flows for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and 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 company the investment in which on the equity basis of accounting totaled NIS 79.7 million and NIS 77.3 million as of December 31, 2002 and 2001, respectively, and the Company's share in the net income losses of which totaled NIS 1.6 million, NIS (5.1) million and NIS 5.2 million for each of the three years, the last of which ended December 31, 2002, respectively. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for this certain company, is based solely on the reports of the other auditors.

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 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 provide a reasonable basis for our opinion.

As no audited statements of other auditors were furnished, the investment in investee was included according to the adjusted book value as of December 31, 2001. The statement of operations does not include the Company's share in the results of operations of that investee for the year ended December 31, 2002.

In our opinion, except for the absence of information referred to in the preceding paragraph, 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, 2002 and 2001, and the results of its operations, the changes in its deficiency and its cash flows for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

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.

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Without qualifying our opinion, we wish to draw attention that the Company has restated its financial statements for the year ended December 31, 2001 in order to retroactively reflect the effect of the operating results of an investee whose investment in the financial statements for December 31, 2001 did not include its operating results for 2001.

Tel-Aviv, Israel
March 18, 2003

/s/ KOST, FORER and GABBAY

KOST, FORER & GABBAY
A Member of Ernst & Young Global

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24 March, 2003

Auditors' Report to the Shareholders of
Koor Technologies Ltd (hereinafter - "the Company")

We have audited the accompanying balance sheets of the Koor Technologies Ltd as at December 31, 2002 and 2001, and the related statements of operations, shareholders' equity, for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001 and the results of their operations, the changes in shareholders' equity for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

As explained in the notes, 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.

Sincerely yours,

/s/ Yosef Shimony

Yosef Shimony

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Certified Public Accounts (Isr.)

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24 March, 2003

Auditors' Report to the Shareholders of
Koor Peace Projects (1994) Ltd. (hereinafter - "the Company").

We have audited the accompanying balance sheets of the Koor Peace Projects (1994) Ltd as at December 31, 2002 and 2001, and the related statements of operations, shareholders' equity, for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001 and the results of their operations, the changes in shareholders' equity for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

As explained in the notes, 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.

Sincerely yours,

/s/ Yosef Shimony

Yosef Shimony
Certified Public Accounts (Isr.)

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Independent Auditor's Report

We have audited the accompanying balance sheets of Koor Electronics Ltd. (hereafter - the Company) as of December 31, 2002 and 2001, and the related statements of operations and changes in deficit for each of the three years in the period ended December 31, 2002. These financial statements are in the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and changes in deficit for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

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.

/s/ Oren Horowitz & Co. - H. Wallenstein & Co.

OREN HOROWITZ & CO - H. WALLENSTEIN & CO
Certified Public Accountants (Isr.)

Ramat-Gan, Israel
March 17, 2003

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Kost, Forer & Gabbay
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AUDITORS' REPORT

To the Shareholders of

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SOLOR AGENCIES LTD.

We have audited the accompanying balance sheets of Solor Agencies Ltd. ("the Company") as at December 31, 2002 and 2001, and the related statements of operations, changes in deficiency and cash flows for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these 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 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 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, 2002 and 2001, and the results of its operations, the changes in its deficiency and its cash flows for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

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.

Without qualifying our opinion, we wish to draw attention to the matter discussed in Note 1a. to the financial statements. The Company has suffered losses amounting to approximately NIS 358 thousand for the year ended December 31, 2002 and has a working capital deficiency as of December 31, 2002 amounting to approximately NIS 1,762 thousand. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments for the amounts and classification of assets or the amounts and classification of liabilities that may result should the Company not be able to continue and to operate as a "going concern".

Tel-Aviv, Israel
March 18, 2003

/s/ KOST, FORER & GABBAY

KOST, FORER & GABBAY
A Member of Ernst & Young Global

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

SHERATON MORIAH (ISRAEL) LTD.

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We have audited the accompanying balance sheets of Sheraton Moriah (Israel) Ltd. ("the Company") as of December 31, 2002 and 2001, and the consolidated balance sheets - of the Company and on a consolidated basis - at such dates and the related statements of operations, shareholders' equity, and cash flows - of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and 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 consolidated whose assets constitute 5.5% and 4% of the total consolidated assets as at December 31, 2002 and 2001, respectively, and whose revenues constitute 18.1%, 19% and 26% of the total consolidated revenues for each of the three years ended December 31, 2002, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us and our opinion, insofar as it related to amounts included in respect thereof is based solely on the reports of the other auditors. Furthermore, the data included in the consolidated financial statements relating to the equity in investees are based on the financial statements audited by other auditors.

We conducted our audits in accordance with US generally accepted auditing standards. 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, except for matter discussed in the following paragraph.

The financial statements of proportionately consolidated subsidiaries whose assets and revenues constitute 30% and 22.2% of the total consolidated assets and revenues at December 31, 2002 and for the year then ended, respectively, have not been approved by the management of these companies and, therefore, not yet received the respective auditor reports.

In our opinion, except for the possible effect of adjustments that might have been required had the financial statements noted in the preceding paragraph been received, 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 on a consolidated basis - at December 31, 2002 and 2001 and the results of their operations, changes in shareholders' equity and cash flows - for the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

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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 pronouncements of the Institute of Certified Public Accountants in Israel.

/s/ Brightman Almagor & Co.

Brightman Almagor & Co.

/s/ Lion, Orlitzky & Co.

Lion, Orlitzky & Co.

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Deloitte Touche Tomatsu
Certified Public Accountants (Isr.)

Certified Public Accountants (Isr.)

Tel Aviv, March 23, 2003

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Deloitte
& Touche
Brightman Almagor

REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF KNAFAIM - ARKIA HOLDINGS LIMITED

We have audited the accompanying balance sheet of Knafaim - Arkia Holdings Limited ("the Company") as of December 31, 2002 and the consolidated balance sheet as of the same date, and the related statements of income, shareholders' equity and cash flows - of the Company and consolidated - for the year ended December 31, 2002. These financial statements are the responsibility of 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 each of the two years ended on that date, were audited by other auditors, the unqualified opinion of which was given on March 18, 2002.

We did not audit the financial statements of subsidiaries whose assets included in consolidation constitute approximately 0.8% of total consolidated assets as of December 31, 2002, and whose revenues included in consolidation constitute approximately 9.3% of total consolidated revenues for the year ended December 31, 2002. We also did not audit the financial statements of affiliated companies, the investment in which was U.S.\$ 15,929 thousand as of December 31, 2002, and the Company's equity in their losses for the year ended December 31, 2002 was U.S.\$ 2,021 thousand. These 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 generally accepted auditing standards in the United States of America. 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 the Board of Directors and 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, 2002, and the results of operations, shareholders' equity and cash flows - of the Company and on a consolidated

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basis - for the year ended on that date in conformity with generally accepted accounting principles in Israel.

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 exchange rate of the U.S. dollar 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, March 24, 2003

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ANDERSEN
Luboshitz Kaslerer

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF

KNAFAIM - ARKIA HOLDINGS LIMITED

We have audited the accompanying balance sheets of Knafaim - Arkia Holdings Limited ("the Company") and the consolidated balance sheets as of December 31, 2001 and 2000, and the related statements of income, shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries whose assets constitute approximately 1.9% and 2.1% of total consolidated assets as at December 31, 2001 and 2000, respectively, and whose revenues constitute approximately 31%, 25% and 18% of total consolidated revenues for the years ended December 31, 2001, 2000 and 1999, respectively. Also we did not audit the financial statements of affiliated companies, the investment in which is U.S.\$17,418,000 and U.S.\$19,901,000 as at December 31, 2001 and 2000, respectively, and the Company's equity in their earnings (losses) is U.S.\$798,000, U.S.\$1,043,000 and U.S.\$(970,000) for the years ended December 31, 2001, 2000 and 1999, 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 generally accepted auditing standards in Israel and in the United States, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973. 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,

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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 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 at December 31, 2001 and 2000, and the results of operations, shareholders' equity and cash flows - of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2001, in conformity with generally accepted accounting principles in Israel.

As described in Note 2(a), the Company prepares its primary financial statements in values adjusted for changes in the general purchasing power of the Israeli currency as measured by the changes in the exchange rate of the U.S. dollar 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 2(a).

Tel Aviv, March 18, 2002

/s/ Luboshitz Kasierer

Luboshitz Kasierer
Certified Public Accountants (Isr.)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Isram Wholesale Tours and Travel, Ltd. and Subsidiaries
(A Majority-Owned Subsidiary of Koor Industries Limited)

We have audited the accompanying consolidated balance sheets of Isram Wholesale Tours and Travel, Ltd. and Subsidiaries (a majority-owned subsidiary of Koor Industries Limited) as of December 31, 2002 and 2001, and the related consolidated statements of income (loss) and retained earnings, and cash flows for each of the three years in the period ended December 31, 2002. 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 did not audit the financial statements of Isram (Israel) Touring, Ltd., a wholly owned subsidiary, which statements reflect total assets of \$1,248,000 and \$1,734,000 as of December 31, 2002 and 2001, respectively, and total revenue of \$3,145,000, \$5,823,000 and \$28,670,000 for the years ended December 31, 2002, 2001 and 2000, respectively. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Isram (Israel) Touring, Ltd., is based solely on the report of the other auditors.

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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 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

As more fully described in Note 1 to the financial statements, the Company has not tested goodwill for impairment and is continuing to amortize goodwill. The effects of this departure from accounting principles generally accepted in the United States of America, is not reasonably determinable.

In our opinion, based on our audits and the report of other auditors, except for the effects of amortizing goodwill instead of testing it for impairment, as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Isram Wholesale Tours and Travel, Ltd. and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ Israeloff, Trattner & Co. P.C.

Garden City, New York
February 13, 2003, except as to foreign
operations, covered by the other auditors'
report, as to which the date is February 24, 2003

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Deloitte
& Touche
Brightman Almagor

Auditors' Report to the Shareholders of
Mashal Alumina Industries Ltd.

We have audited the balance sheets of Mashal Alumina Industries Ltd. ("the Company") as at December 31, 2002 and 2001, and the related statements of operations, for each of the three years then ended. 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 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 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

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that our audits provide a reasonable basis for our opinion.

The financial statements do not include a statement of changes in shareholders' equity and a statement of cash flows as required in accordance with Opinions of the Institute of Certified Public Accountants in Israel.

In our opinion, except for the omission of the abovementioned information, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations, for each of the three years then ended in conformity with accounting principles generally accepted in Israel.

As explained in Note 2 the abovementioned 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1B to the financial statements, the Company's recurring losses from operations and shareholders' deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Brightman Almagor & Co.

Brightman Almagor & Co.
Certified Public Accountants

March 12, 2003

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Auditors' Report to the Shareholders of
Koor Hanpakot Ltd.

We have audited the accompanying balance sheets of Koor Hanpakot Ltd. (the "Company") as of December 31, 2002 and 2001 and the related statements of operations, shareholders' equity and cash flows for each of the three years, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel and 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 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 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, 2002 and 2001 and the results of its operations, the changes in its

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shareholders' equity and cash flows for each of the three years, the last of which ended December 31, 2002, in conformity with accounting principles generally accepted in Israel.

As explained in note 1b, 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
February 23, 2003

/s/ Kesselman & Kesselman

Kesselman & Kesselman
Certified Public Accountants (Isr.)

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March 16, 2003

Auditors' Report to the Shareholders of
Koor Properties Ltd.

I have audited the accompanying balance sheets of Koor Properties Ltd. (the "Company") as at December 31, 2002 and 2001, 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, the last of which ended December 31, 2002. These financial statements are the responsibility of the Company's Board of Directors and of its Management. My responsibility is to express an opinion on these financial statements based on my audits.

I did not audit the financial statements of certain subsidiaries, whose revenues constitute 3% of the total consolidated revenues for the years ended December 31, 2000. The financial statements of those subsidiaries were audited by other auditors whose reports thereon were furnished to me. My opinion, insofar as it relates to amounts emanating from the financial statements of such subsidiaries, is based solely on the said reports of the other auditors. Furthermore, the data included in the financial statements relating to the net asset value of the Company's investments 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.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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. I believe that my audits, and reports of the other auditors, provide a reasonable basis for my opinion.

In my opinion, based on my audits and on the reports of the above-mentioned

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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, 2002 and 2001 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, 2002, in conformity with accounting principles generally accepted in Israel.

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.

/s/ Yosef Shimony

Yosef Shimony
C.P.A (Isr.)

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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, 2002, and the related consolidated statement of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the 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 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, 2002, and the consolidated results of their operations and cash flows for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

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/s/ Kost Forer and Gabbay

Tel-Aviv, Israel
January 24, 2003

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BDO Seidman, LLP
Accountants and Consultants

Independent Auditors' Report

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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Independent Auditor's Report

We have audited the accompanying balance sheets of Telrad Business Communication Ltd. (hereafter -- the Company) as of December 31, 2002 and 2001, and the related statements of operations, changes in equity and of cash flows for each of the three years in the period ended December 31, 2002. These financial statements are in the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

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.

s/ Oren Horowitz & Co. - H. Wallenstein & Co.

OREN HOROWITZ & CO - H. WALLENSTEIN & CO
Certified Public Accountants (Isr.)

Ramat-Gan, Israel
February 6, 2003

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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, 2002 and 2001, and the related consolidated statements of operations, stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial

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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 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, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, 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.

/s/ Hoberman, Miller, Goldstein & Lesser, CPA's, P.C.

February 13, 2003

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Deloitte & Touche
Brightman Almagor

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, 2002 and 2001 and the related statements of operations, changes in shareholders' equity, and cash flows for the three years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express as opinion on those 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 includes

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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, 2002 and 2001, and the results of its operations, changes in its shareholders' equity and its cash flows for the three years in the period then ended in conformity with generally accepted accounting principles in Israel.

As explained in Note 2A, the financial statements are presented in U.S. dollars.

/s/ Brightman Almagor & Co.
Certified Public Accountants

Tel Aviv
March 11, 2003

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Deloitte & Touche
Brightman Almagor

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, 2002 and 2001 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, 2002. 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 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 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, 2002 and 2001, and the results of its operations, changes in its shareholders' equity (deficiency) and its cash flows for each of the three years, in the period ended December 31, 2002, in conformity with generally

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accepted accounting principles in Israel.

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
March 10, 2003

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AUDITORS' REPORT

To the shareholders of

LUXEMBURG PHARMACEUTICAL LTD.

We have audited the accompanying balance sheets of Luxemburg Pharmaceutical Ltd. ("the Company") as at December 31, 2002 and 2001, and the consolidated balance sheets as of such date and the related statements of operations, changes in equity and cash flows - of the Company and consolidated - for each of the years ended on those dates. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of an affiliated companies, the investment in which on the equity basis of accounting totaled \$264 thousand and \$111 thousand as of December 31, 2002 and 2001, and the Company's share in the net income of which totaled \$153 thousand and \$371 thousand for each of the years ended on those dates. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for this certain company, is based solely on the reports of the other auditors.

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 includes examining, on a test basis, evidence supporting the significant estimates made by the Board of Directors and 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 reports of the above-mentioned other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the

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Company as of December 31, 2002 and 2001, and the results of its operations, the changes in its equity and its cash flows for each of the years ended on those dates, in conformity with accounting principles generally accepted in Israel.

As explained in Note 2, the above-mentioned 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 Forber and Gabbay

Tel-Aviv, Israel
March 4, 2003

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AUDITORS' REPORT

To the shareholders of

LYCORED NATURAL PRODUCTS INDUSTRIES LTD.

We have audited the accompanying balance sheets of Lycored Natural Products Industries Ltd. ("the Company") as of December 31, 2001 and 2000, and the consolidated balance sheets as of such dates and the related statements of income, changes in equity and cash flows - of the Company and consolidated - for each of the years ended on those dates. These financial statements are the responsibility of the Company's Board of Directors and 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 1% and 0.9% of total consolidated assets as of December 31, 2001 and 2000 respectively, and whose revenues included in consolidation constitute approximately 0% and 5.3% of total consolidated revenues for each of the years ended on those dates, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards 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 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 provide a reasonable basis for our opinion.

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In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respect, the financial position - of the Company and consolidated - as of December 31, 2001 and 2000, and the results of its operations, changes in its equity and its cash flows of the company and consolidated for each of the years ended on those dates, in conformity with generally accepted accounting principles.

As explained in Note 2, the above-mentioned 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 and Gabbay

Tel-Aviv, Israel
February 24, 2002

KOST, FORER & GABBAY
A Member of Ernst & Young International

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EXHIBIT LIST

Exhibit No. -----	Description -----
1.1	Memorandum of Association of Koor Industries Ltd.*
1.2	Articles of Association of Koor Industries Ltd.*
1.3	Amendments to Articles of Association of Koor Industries Ltd. Pursuant to a General Meeting of Shareholders held on June 1, 2003.***
2.1	Form of Ordinary Share Certificate.*
2.2	Form of Deposit Agreement including Form of American Depositary Receipt.**
4.1	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.***
10.1	Certification of CEO and CFO 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.***

* 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.

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** 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.
*** Filed herewith.