

AMPAL-AMERICAN ISRAEL CORP
Form 10-K
March 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-538

AMPAL-AMERICAN ISRAEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

New York
(State or Other Jurisdiction of
Incorporation or Organization)

13-0435685
(I.R.S. Employer
Identification No.)

555 Madison Avenue
New York, NY, USA
(Address of Principal Executive Offices)

10022
(Zip Code)

Registrant's telephone number, including area code (866) 447-8636
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on which Registered

Class A Stock, par value \$1.00 per share

The NASDAQ Global Market

(Mark One)

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter was \$110,864,522 based upon the closing market price of such stock on that date. As of February 23, 2009, the number of shares outstanding of the registrant's Class A Stock, its only authorized and outstanding common stock, is 56,160,477.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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**ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
OF AMPAL-AMERICAN ISRAEL CORPORATION**

PART I

ITEM 1. BUSINESS

As used in this report on Form 10-K (the "Report"), the term "Ampal" or "registrant" refers to Ampal-American Israel Corporation. The term "Company" refers to Ampal and its consolidated subsidiaries. Ampal is a New York corporation founded in 1942.

The Company primarily acquires interests in businesses located in the State of Israel or that are Israel-related. Ampal's investment focus is principally on companies or ventures where Ampal can exercise significant influence, on its own or with investment partners, and use its management experience to enhance those investments. In determining whether to acquire an interest in a specific company, Ampal considers quality of management, potential return on investment, growth potential, projected cash flow, investment size and financing, and reputable investment partners.

The Company's strategy is to invest opportunistically in undervalued assets with an emphasis in the following sectors: Energy, Chemicals, Real Estate, Project Development and Leisure Time. We believe that past experience, current opportunities and a deep understanding of the above-referenced sectors both domestically in Israel and internationally will allow the Company to bring high returns to its shareholders. The Company emphasizes investments which have long-term growth potential over investments which yield short-term returns.

The Company provides its investee companies with ongoing support through its involvement in the investees' strategic decisions and introduction to the financial community, investment bankers and other potential investors both in and outside of Israel.

Significant Developments During 2008

Acquisition of Additional Ownership Interest in Gadot Chemical Tankers and Terminals Ltd.

On June 3, 2008, Ampal completed its acquisition of an additional 14.98% of the outstanding ordinary shares (14.71% on a fully diluted basis) of Gadot Chemical Tankers and Terminals Ltd. (Gadot) through its wholly owned subsidiary Merhav Ampal Energy Ltd. (MAE). The total consideration was \$17.7 million. The consideration was financed with Ampal's own resources and with borrowings in the amount of \$11.3 million.

On August 12, 2008, Ampal completed its acquisition of an additional 20.6% of the outstanding ordinary shares and 66.76% of the outstanding convertible debentures of Gadot and now indirectly holds 100% of the outstanding ordinary shares (99.99% on a fully diluted basis) of Gadot through MAE. The total consideration was \$23.3 million. The consideration was financed with Ampal's own resources and with borrowings in the amount of \$15.4 million.

These transactions followed the acquisition by Ampal of a 65.5% controlling interest (63.66% on a fully diluted basis) in Gadot on December 3, 2007.

As a result of these transactions, Gadot is now a wholly owned subsidiary of the Company and its shares and debentures have been delisted from the Tel Aviv Stock Exchange (the TASE).

Gadot and its group of companies form Israel's leading chemical distribution organization. Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to the local industry. For further information regarding Gadot, see Chemicals Gadot Chemical Tankers and Terminals Ltd.

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Ampal funded the Gadot transactions with a combination of available cash and the proceeds of a credit facility, dated November 29, 2007 (the Credit Facility), between MAE and Israel Discount Bank Ltd. (the Lender), for approximately \$60.7 million, which amount was increased, on the same terms and conditions, on June 3, 2008 by approximately \$11.3 million in order to fund the second stage of the transaction and on September 23, 2008 by approximately \$15.4 million in order to fund the third stage of the transaction. The Credit Facility is divided into two equal loans of approximately \$43.7 million. The first loan is a revolving loan that has no principal payments and may be repaid in full or in part on December 31 of each year until 2019, when a single balloon payment will become due. The second loan also matures in 2019, has no principal payments for the first one and a half years, and shall thereafter be paid in equal installments over the remaining ten years of the term. Interest on both loans accrues at a floating rate equal to LIBOR plus a percentage spread and is payable on a current basis. Ampal has guaranteed all the obligations of MAE under the Credit Facility and Ampal's interest in Gadot has also been pledged to the Lender as a security for the Credit Facility. Yosef Maiman, the Chairman and CEO of Ampal and a member of the controlling shareholder group, has agreed with the Lender to maintain ownership of a certain amount of the Company's Class A Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type.

Sugarcane Ethanol Production Project

On May 29, 2008, Ampal loaned Merhav M.N.F. Ltd. (Merhav) \$10 million, in addition to the currently outstanding \$10 million that were loaned on December 25, 2007, to fund the sugarcane ethanol production project (the Project) in Colombia being developed by Merhav. The additional loan was made pursuant to the existing promissory note, dated as of December 25, 2007, by Merhav in favor of Ampal (the Promissory Note). The Promissory Note was given in connection with an option agreement dated December 25, 2007 (the Original Option Agreement), with Merhav providing Ampal with the option (the Option) to acquire up to a 35% equity interest in the Project. The loan will be convertible into all or a portion of the equity interest purchased pursuant to the Original Option Agreement.

On December 25, 2008, Ampal entered into an amendment (the Option Amendment) to the Original Option Agreement. Under the Original Option Agreement, the Option expired on the earlier of December 25, 2008 or the date (the Financing Date) on which both (i) Merhav obtained third-party debt financing for the Project and (ii) an unaffiliated third party holds at least a 25% equity interest in the Project. The Option Amendment extends the expiration of the Option to the earlier of December 31, 2009 or the Financing Date.

The Option Amendment also provides that in determining the price to be paid by Ampal for shares pursuant to the option under the Valuation Model (as defined below), the parties have agreed to review the discount rate set forth in the Valuation Model to determine

whether the discount rate should be increased, provided, however, that the purchase price shall not exceed the amount Ampal would have paid without giving effect to the Option Amendment. The maximum purchase price for any interest in the Project purchased by Ampal pursuant to the option would be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the Amended Promissory Note referred to below, the lesser of (i) a price based on a currently agreed valuation model as updated from time to time to reflect changes in project, financing and other similar costs (the Valuation Model) as such updates are reviewed by Houlihan Lokey Howard & Zukin at the time of the Option's exercise or (ii) the lowest price paid by any unaffiliated third party for an interest in the Project, or (B) with respect to any portion of such interest in the Project being purchased in excess of the balance of the Amended Promissory Note, the lowest price paid by an unaffiliated third party for its interest in the Project, unless no unaffiliated third party has purchased an interest in the Project, in which case the purchase price will be based on the Valuation Model.

In consideration for Merhav entering into the Option Amendment, Ampal agreed to certain amendments to the Promissory Note reflected in an Amended and Restated Promissory Note, dated December 25, 2008 (the Amended Promissory Note). The Amended Promissory Note provides for (i) an increase in the annual interest rate from LIBOR plus 2.25% to LIBOR plus 3.25% and (ii) an extension of the maturity date of the Promissory Note to December 31, 2009. As a condition to amending and restating the Promissory Note, Ampal received a personal guaranty dated as of December 25, 2008, from Yosef A. Maiman personally guaranteeing the obligations of Merhav under the Amended Promissory Note.

The loan continues to be secured by Merhav's pledge to Ampal, pursuant to a Pledge Agreement dated December 25, 2007, between Merhav and Ampal, of all of the shares of Ampal's Class A Common Stock, par value \$1.00 per share, owned by Merhav.

Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholders group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transaction.

East Mediterranean Gas Company

East Mediterranean Gas Company S.A.E. (EMG), in which Ampal directly and indirectly owns a 12.5% interest (includes 4.3% held by the Joint Venture (as defined below)), have reached in February 2009 an agreement in principle with the Egyptian authorities with regard to repricing gas sold to EMG. The agreement is yet to be finalized in the form of an amendment to the agreement between EMG and its upstream supplier. To the best of Ampal's understanding from EMG, the agreement in principle with the Egyptian authorities includes various provisions designed to avoid adverse economic impact to EMG, and the two sides have committed to a good faith intensive effort to reach a definitive agreement with respect to supply and the price of gas to EMG. There is, however, no assurance that the negotiations will be completed or that the outcome will not adversely affect EMG. To the best of Ampal's understanding, recently other international companies purchasing gas from Egypt successfully completed such negotiations to all parties' satisfaction. At this stage EMG is not supplying the full contracted quantities of the gas and to the best of Ampal's knowledge the full contracted quantities should begin to be supplied in the near future. The said price negotiations commenced on the request of the Egyptian Ministry of Trade and Infrastructure and were driven by the substantial increase in the energy prices since the existing gas purchase prices were determined in 2000.

In May 2008, the Government of Egypt adopted legislation that purports to revoke the tax free status of existing free zone companies operating in the iron, cement, steel, petroleum, liquification and transport of natural gas industries. The legislation, by its terms, would apply to EMG. Ampal understands that the impact of this recent change in law would be to impose a 20% tax on EMG's net future income. It is not clear to what extent the legislation will be enforced or whether it is valid under Egyptian legal principles. The legislation is, to Ampal's understanding, unusual, and it is not clear whether EMG will be successful in its negotiations and therefore what if any impact the legislation will ultimately have on EMG.

In September 2008, Midroog Ltd., an affiliate of Moody's Investors Service, (Midroog) downgraded the rating on Ampal's Series A and Series B Debentures from A2 to A3 and will continue to maintain Ampal on its Watchlist. Midroog concluded that there is a possibility that new agreements between EMG and the Egyptian gas supplier may adversely affect EMG's financial results compared to previous expectations, which will result in reduced cash flow from EMG to Ampal and other financial parameters resulting from such reduced cash flow. Midroog added that it will monitor the situation, including the negotiations between EMG and the Egyptian gas supplier, the regularity of the gas supply and other matters, and will review Ampal's rating accordingly. Ampal's rating will remain on the Watchlist.

Offering of Series B Debentures

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On April 29, 2008, Ampal completed a public offering in Israel of NIS 577.8 million (approximately \$166.8 million) aggregate principal amount of Series B debentures due 2016. The debentures are linked to the Israeli consumer price index and carry an annual interest rate of 6.6%. The debentures rank pari passu with Ampal's unsecured indebtedness. The debentures will be repaid in five equal annual installments commencing on January 31, 2012, and the interest will be paid semi-annually. As of December 31, 2008, the outstanding debt under the debentures amounts to \$138.7 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. Ampal deposited an amount of \$44.6 million with Clal Finance Trusties 2007 Ltd. in accordance with a trust agreement dated April 6, 2008, to secure the first four years worth of payments of interest on the debentures. As of December 31, 2008 the outstanding amount of the deposit was \$35.8 million.

On March 27, 2008, Midroog rated the Series B debentures as A2 and also raised the rating of Ampal's Series A debentures to A2. On September 15, 2008, Midroog reduced the rating on the Series A and Series B debentures to A3. For further information, see Significant Developments During 2008 - East Mediterranean Gas Company.

Sale of Hod Hasharon Sport Center (1992) Limited Partnership

On August 7, 2008, the Company signed an agreement for the sale of its 50% holdings of Hod Hasharon Sport Center (1992) Limited Partnership for a consideration of \$2.0 million.

Stock and Debenture Repurchase Program

Ampal's Board of Directors approved a stock repurchase program, effective as of November 23, 2008. Under the program, Ampal is authorized to repurchase up to \$20 million of its outstanding shares of its Class A Stock, from time to time depending on market conditions, share price and other factors. The board also approved a repurchase plan, effective as of November 23, 2008, of Ampal's Series A and Series B debentures that are traded on the TASE.

The repurchases may be made on the open market, in block trades or otherwise and may include derivative transactions. The program may be suspended or discontinued at any time. Ampal adopted Rule 10b5-1 trading plan, which will allow Ampal to repurchase its Class A Stock in the open market during periods in which stock trading is otherwise prohibited to Ampal due to insider trading laws.

As of December 31, 2008, the Company has purchased 1,366,415 shares of Class A Stock for an aggregate amount of \$1.1 million, and it also purchased 5,074,418 Series A debentures and 68,723,757 Series B debentures for an aggregate amount of \$2.4 million.

The Company recorded a gain of \$13.1 million due to the purchase of the debentures.

The repurchase programs will be funded using Ampal's available cash and by possible future borrowings.

Repricing of Outstanding Stock Options

On December 8, 2008, Ampal's Stock Option and Compensation Committee and its Board of Directors approved the repricing of outstanding options to purchase, in the aggregate, 2,270,000 shares of Ampal's Class A Stock, which were previously granted to ten of the Company's current employees, executive officers and directors pursuant to Ampal's 2000 Incentive Plan. The outstanding options had been originally issued with exercise prices ranging from \$3.12 to \$5.35 per share, which represented the then current market prices of Class A Stock on the dates of the original grants. The repricing was effected by canceling the outstanding options, and granting to each holder of cancelled outstanding options a new option, with a 10 year term, to purchase the total number of shares of Class A Stock underlying such cancelled outstanding options, at an exercise price equal to \$1.17 per share, the closing price of Class A Stock on NASDAQ on December 5, 2008, the most recent closing price prior to the approval by the board and the committee. The repriced options maintain the vesting schedule of the cancelled outstanding options.

Investee Companies by Industry Segment

Listed below by industry segment are all of the substantial investee companies in which Ampal had ownership interests as of December 31, 2008, the principal business of each and the percentage of equity owned, directly or indirectly, by Ampal. Further

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information with respect to the more significant investee companies is provided after the following table. For industry segment financial information and financial information about foreign and domestic operations, see Note 18 to Ampal's consolidated financial statements included in this Report for the fiscal year ended December 31, 2008.

Industry Segment	Principal Business	Percentage as of December 31, 2008 ⁽¹⁾
Chemicals		
Gadot Chemical Tankers and Terminals Ltd.	Chemical Sales, Storage, Shipping and Transport	100.0
Energy		
East Mediterranean Gas Company	Natural Gas Provider & Pipeline Owner	12.5 ⁽²⁾
Global Wind Energy	Renewable Energy	50.0
Real Estate		
Bay Heart Ltd.	Shopping Mall Owner/Lessor	37.0
Leisure-Time		
Country Club Kfar Saba Ltd.	Country Club Facility	51.0
Finance		
Ampal (Israel) Ltd.	Holding Company	100.0
Ampal Holdings (1991) Ltd.	Holding Company	100.0

⁽¹⁾ Based upon current ownership percentage. Does not give effect to any potential dilution.

⁽²⁾ 8.2% of which are held directly and 4.3% of which are held through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership, which is a joint venture between Ampal, the Israel Infrastructure Fund and other institutional investors.

Chemicals

GADOT CHEMICAL TANKERS AND TERMINALS LTD. (GADOT)

General

On December 3, 2007, Ampal completed the purchase of a 65.5% controlling interest (63.66% on a fully diluted basis) in Gadot through its wholly owned subsidiary, MAE. On June 3, 2008, Ampal purchased an additional 14.98% bringing its controlling interest to 79.3% (78.88% on a fully diluted basis) and on August 12, 2008, Ampal purchased additional 20.6% bringing its controlling interest to 100% (99.99% on a fully diluted basis).

Gadot was founded in 1958 as a privately held Israeli company, with operations in distribution and marketing of liquid chemicals for raw materials used in industry. Since then, Gadot has expanded into a group of companies, which currently forms Israel's leading chemical distribution organization. Through its subsidiaries, Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to countries across the globe, with an emphasis on Israel and Western Europe. In our description of Gadot's business operations, the term "Gadot" refers to Gadot and its consolidated subsidiaries. Gadot listed its shares for trade on the Tel Aviv Stock Exchange in 2003 and was delisted from trade as of October 16, 2008 following its acquisition by Ampal.

Gadot's business is influenced by certain economic factors, which include (i) global changes in demand for chemicals used as raw materials for industry, (ii) price fluctuations of chemicals and raw materials, (iii) price fluctuations of shipping costs, ship leases and ship fuel, (iv) general global financial stability, and (v) currency fluctuations between the New Israeli Shekel and other currencies, primarily the U.S. dollar.

Gadot's operations are divided into three main service sectors:

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Importing, marketing and sale of chemicals and other raw materials in Israel and Europe;

Shipping, primarily between the European ports of the Atlantic ocean and the Mediterranean sea port and Agency Services for Shipping Companies and Docked Ships;

Logistical services in Israel and Europe;

These service sectors are synergistic and complimentary, such that Gadot provides its customers with a full range of services, from acquiring chemicals based on a customer's needs, logistical handling including shipping and transport, offloading, storage and delivery. Members of the Gadot group of companies also provide services for other members of the group, strengthening the group as a whole.

On April 29, 2008, Gadot signed an agreement for the winding-up of Chem-Tankers C.V. (Chem-Tankers), a limited partnership registered in the Netherlands, which was engaged in the maritime shipping of chemicals in bulk. The Chem-Tankers was established pursuant to an agreement signed on October 1, 2005 between Gadot Yam Chemical Shipping Ltd., a wholly owned and controlled subsidiary of Gadot, and a foreign company registered in Cyprus (hereafter the Partners). The agreement sets forth the manner in which the Chem-Tankers will wind down, including provisions relating to the settling of accounts between the Partners, the distribution of the operating routes, the ships, and the fixed assets of the Chem-Tankers and the payment of winding-up expenses. Following the winding-up of the Chem-Tankers, the Company shall continue to operate the operating routes that it operated prior to the establishment of the Chem-Tankers in 2005, viz., the North Europe-Mediterranean Sea route and the North America-Mediterranean Sea route.

Importing, Marketing and Sale of Chemicals and Other Raw Materials

Gadot imports, markets and sells chemicals and other raw materials, primarily liquid chemicals which are imported in tanker ships and via other methods. These chemicals and other materials are used as raw materials in the medical, cosmetics, paint, plastic, electronics, agriculture, food and other industries. Other activities of Gadot in this sector include:

sale and marketing of oils and other liquid products which are used as food additives in soft drinks, meat and poultry;

operating a sales agency in Israel representing well-known manufacturers, selling a wide range of products, including chemicals, active medicinal agents, electronic components, rubber, polymers, minerals and materials for the textile and paint industry;

sale and marketing of fine chemical agents used in research laboratories and biochemical industries and marketing of laboratory equipment;

Sale and marketing of inorganic chemicals.

The chemicals that Gadot deals with are in many cases poisonous or hazardous and require Gadot to obtain permits for handling poisonous materials. Special permits are also obtained from environmental authorities, fire safety authorities and other governmental bodies for handling hazardous or flammable substances. Gadot conducts inspections and quality assurance testing and provides its employees with training and equipment necessary for working with hazardous and poisonous substances. Gadot has qualified for and received the ISO-9001:2000 quality standard for its quality assurance in chemical and liquid matter transport and distribution, as well as the ISO 14001:2004 quality standard for its environmental management system.

Gadot generally provides its services in this area of business to long-term customers in Israel and Benelux that are mostly large industrial factories that use chemicals and other materials as raw materials in their manufacturing processes. These customers are spread over a wide variety of industries which reduces the risk of a downturn in any one type of industry having a significant effect on the revenues of Gadot. Gadot is not dependent on any single customer in this service sector. Nevertheless, the loss of any long-term customer may materially affect the short-term or even mid-term revenues and net profits of Gadot.

Sales, marketing and distribution are conducted by sales teams consisting of Gadot employees, who are constantly in touch with existing customers and who also actively seek out new markets and customers. Sales are made by purchase orders which subsequently are supplied from the existing stock of Gadot. A relatively small percent of sales is made via backlog orders, as supply time is generally quick.

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The chemical market is very competitive and Gadot has many competitors in Israel, Europe and other countries. Gadot's competitors include sales agents of large chemical manufacturers, small importers and factories that import materials themselves for their own use. Competition is especially fierce in marketing chemicals packaged in barrels and jugs or in ISO-tanks (special containers used to transport liquid matter), since these do not require investment in special storage facilities, which makes it easier for competitors to enter the market.

Gadot's main advantages over its competition in the chemical market are due to:

its ability to provide full door-to-door logistical services to its customers, from purchase, shipping and storage, to land transport to the customer's factory;

its ability to purchase and maintain surplus in large quantities of different chemicals ready for sale in a variety of packaging types and sizes;

owning the only chemical fluids terminal in Israel, capable of providing storage and transport;

decades of experience in the field;

stable, long term relationships with existing customers;

the quality of products supplied by it and the reputation and good will of its suppliers; and

professional support provided by suppliers and by Gadot for its products.

Gadot's main disadvantages in the chemical market are (i) the market consisting of highly sophisticated customers that are very knowledgeable of product pricing and alternatives from competitors, which makes it hard to increase profitability and (ii) the high costs involved in purchasing and maintaining large quantities in surplus for immediate supply.

Most of the raw materials sold by Gadot are manufactured outside of Israel, in Europe, the United States, South America, the Far East and South Africa. The variety of supply sources allows for increased availability in changing market conditions.

Gadot is not dependent on any one supplier in the chemicals market. There are numerous suppliers for each product sold by it, mostly located outside of Israel. Purchase of chemicals and raw materials is generally made directly from the manufacturer, by way of purchase orders.

Gadot revenues for 2008 totaled approximately \$535 million compared to approximately \$357 million in 2007. The 49% increase in revenues is mainly the result of the following factors:

Vopak Logistic Services (VLS) acquisition towards the end of 2007. The acquisition contributed an increase of approximately 23% to the revenue growth during 2008.

The crude oil price increase during the first 3 quarters of 2008 translated to an increase in Gadot's petrochemicals materials which are derived from the crude oil price.

Sales volume during 2008 increased compared to the 2007 volume.

Sale of products with increased margins.

Gross profit increased by 30% from \$34.1 million to \$44.5 million. This increase is partly the result of the VLS acquisition and partly to the devaluation of the USD against the NIS during 2008 compared to 2007.

Shipping

Gadot provides its customers (including subsidiaries within the Gadot group of companies) with shipping services, shipping liquid chemicals in tanker ships both to and from Israel. As of December 31, 2008, Gadot uses a fleet of 8 vessels, which are either leased or owned by Gadot, with loading capabilities ranging from 8,000 tons to 17,000 tons. The total capacity of Gadot's fleet as of December 31, 2008, was approximately 100,000 tons. The main shipping lines operated by Gadot are Israel Northern Europe and Israel United States, with many interim

stops in the European ports of the Atlantic ocean and in Mediterranean sea ports. Gadot also provides logistical support for ships anchored in the ports of Haifa and Ashdod in Israel. These services include coordination of all technical procedures while in port, such as payment of port fees, care of the crew and providing ships with supplies.

Gadot's fleet is subject to strict international regulation with regard to safety of shipping hazardous chemicals and environmental protection of the seas which mainly provide standards for ship conditions and maintenance and crew safety and training. In order to comply with these strict standards and to fulfill customer demand for compliance, all the ships used in Gadot's fleet are double hulled and the tanks used for chemical storage are made of stainless steel, which reduces the danger of corrosion and leakage. All ships in the fleet are managed by companies with the experience and knowledge necessary to comply with such regulations and they are inspected by the relevant authorities at least once a year for deficiencies. If a ship is found not in compliance with the standards, it is not permitted to set sail until all deficiencies are remedied.

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In recent years there has been a rise in demand for chemical shipping in tanker ships, which was mostly due to the growth of the Chinese economy and other emerging markets in Asia, and the growing trade between these countries with other countries. This trend tempered and even decreased during the last quarter of 2005 and the first quarter of 2006, due mainly to the natural disasters that occurred in the United States during that time. This affected Gadot's Trans-Atlantic lines and caused a decrease in profitability during that period. In the first half of 2007 shipping prices generally rose, particularly in the spot shipping assignments. In the second half of 2007 prices stabilized, however the price of ship fuel continued to rise, which caused gross profit to decline compared with the first half of 2007. During 2008 the shipping prices gradually rose. Towards the end of 2008 the shipping prices decreased. The price of ship fuel rose during the first half of 2008 and decreased substantially during the second half of the year.

There are a number of critical factors necessary for succeeding in the chemical shipping business, including:

managing a modern fleet of ships capable of transporting a variety of chemicals with a variety of different capacities in order to meet customer needs and strict regulation;

availability of ships on the various shipping lines;

professional operation of cargo, in order to increase efficiency and safety;

having a strategy of buying or leasing ships at low prices, while entering into long-term shipping contracts with customers at high prices, in order to minimize exposure to changes in the shipping market and to increase profitability;

creating and maintaining strategic relationships with key customers; and

Cooperation with other companies operating in the field, in order to increase the amount of ships working the same line or market and to penetrate new markets.

Competition in the field of shipping is concentrated mainly in the availability of ships and the price of transport. Larger shipping companies have an advantage over smaller ones because they have more and higher quality ships. Therefore, the large companies are usually chosen by customers with large scale shipping needs for long-term periods of time. The mid-size and small shipping companies usually compete for the spot shipping assignments. Most of Gadot's competitors in this service sector are shipping companies of the same size as Gadot. Gadot's success is dependent to a large extent on the shipping fees it charges its customers and on its ability to lease ships at reasonable costs. Gadot's main strengths over its competitors are its steady lines to Israeli ports, along the Mediterranean Sea and from Europe to Central America, and its new and modern fleet. Its main weakness is in international shipping lines, where its competitors have larger fleets capable of providing more frequent service.

Most of Gadot's shipping contracts are for periods of between one to five years, some with options to extend the term. The remainder of its contracts are made on an ad hoc basis. Gadot has two open term contracts that terminate only by consent of the parties. These shipping contracts are drafted according to a global standard, called a Tanker Voyage Charter Party contract. These contracts state the shipping fee and quantity and provide other standard terms, such as type of goods, size, handling instructions, port of loading and off-loading, loading and off-loading time, late fees, time tables, jurisdiction and insurance. These contracts also incorporate by reference the provisions of certain standardized shipping contracts.

Gadot is not dependent on any single customer in this sector.

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Gadot leases the vessels in its fleet according to Time Charter Party contracts, which provide for the lease of a ship together with its crew. These contracts are drafted according to a global standard, except for the specific terms, such as the lease period and fees. The average lease period of ships in the Gadot fleet is from one to five years, usually with an option to extend the term. The lease fee may fluctuate based on market conditions, or renewal or exit points in the contract. These contracts usually provide for the state of the vessel upon delivery to the lessee, maintenance requirements, indemnification to the owners, permission to sub-lease, insurance, inspection rights, compliance with technical specifications and jurisdiction. Sometimes such contracts include an option to purchase the ship at previously agreed terms. Vessels are operated commercially by the lessee, by designating shipping lines and cargo for the vessel, while the lessor operates the technical aspects of running the ship and crew.

Agency Services for Shipping Companies and Docked Ships

Gadot acts as a general agent for shipping companies and for ships docked in Israel. It is also the exclusive representative in Israel of a large shipping company.

Gadot's services to ships at port include logistical support for ships anchored in port in Israel. These services include coordination of all technical procedures while in port, such as payment of port fees, care for the needs of the ship's crew and providing ships with supplies.

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Gadot's services to shipping companies include logistical support for cargo arriving in Israel, such as finding local storage facilities for a ship's cargo, coordinating loading and off-loading of ships, locating and identifying cargo, replacement crews and other services.

ISO-Tank Transportation

Gadot provides transportation services for liquid chemicals in ISO-tanks. ISO-tanks are transported in various ways, including by truck, train, ferry and ship. ISO-tank transport allows the customer to purchase liquid chemicals directly from the supplier, without requiring storage and off-loading. The quantities transported in ISO-tanks are usually significantly smaller than quantities transported by tanker.

Gadot currently owns 142 ISO-tanks and it leases additional ISO-tanks from external sources from time to time in order to meet customer demand. Gadot also leases ISO-tanks to third parties, which include heating systems and upper or lower off-loading apparatuses, as needed.

Logistical Operations in Europe

Since the end of 2007, Gadot has been offering its customers logistical services for chemicals and hazardous materials in Western Europe, including off-loading and storage, filling barrels and containers, door-to-door transport and handling sensitive chemicals. Gadot provides full services to its customers throughout the whole supply chain.

The services provided by Gadot in this sector include:

Delivery – import and export of goods to and from Europe to other destinations around the world, including contracting with shipping companies, dealing with tax authorities, port release and documentation.

Storage – storage of customer's materials in storage facilities, often under specialized conditions (such as temperature control, etc.).

Transport – complete door-to-door service, from arrival of goods in port, storage, packaging and delivery to final destination.

Packaging – packaging of dry and liquid chemicals in barrels, containers or sacks.

Gadot also provides one customer with paint mixing services.

Gadot has long-term leases over storage facilities in three countries for providing these services, with an aggregate area of approximately 180,000 square meters. These storage facilities maintain very high standards and Gadot is the only entity within the storage sector in Europe with facilities in several countries. This gives Gadot a considerable advantage over its competitors in this field. Gadot also contracts with land and sea transport companies to facilitate its logistical services.

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Operating in this sector requires Gadot to obtain appropriate licenses from authorities and to maintain strict European standards for handling hazardous materials and for operating storage facilities. Stored chemicals are categorized by their hazard level and each facility has in place the appropriate approvals and restrictions for the relevant type of material. Regulation in this field changes from time to time and Gadot needs to constantly conform itself to the existing requirements.

This sector has experienced growth in recent years in Western Europe, since an increasing number of companies and manufacturers prefer to outsource their logistical operations, due to the strict regulatory requirements.

Some of the main criteria for success in this service sector are: (i) location of storage facilities near industrial factories or seaports, (ii) wide geographic spread of facilities and (iii) ability to provide quality service at an all-inclusive manner.

The main entry barrier in operating in the logistics sector is compliance with licensing requirements. Applying for such licenses is an expensive and often long process, without certainty of the outcome. Another entry barrier is the necessity to maintain specialized storage facilities capable of storing chemicals and hazardous materials.

Gadot's customers in this service sector include chemical manufacturers and distributors that import or export their goods in Europe. Gadot is not dependent on any one customer in this sector.

Most customers enter into a framework agreement with Gadot which stipulates the scope of services and fees for each service. Fees are generally adjusted annually. Most agreements do not have a minimum quantity requirement.

Gadot's marketing and distribution efforts are conducted by Gadot's sales people in each country whose goal is to locate potential customers for logistical services.

Gadot takes great measures to protect the environment in its facilities in Western Europe. The storage facilities are equipped with cement or ceramic flooring, drainage systems and holding tanks to avoid ground contamination. Gadot has qualified for and received the ISO-9001:2000 quality standard for its quality assurance in this sector. Gadot's facilities have also been inspected a number of times by the CEFIC (the European Chemical Industry Council) according to a safety and quality assessment plan of the CEFIC. The storage facilities are periodically tested by local authorities for ground contamination and fire safety.

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Logistical Operations in Israel

The logistical services provided by Gadot in Israel include:

land transport;

storage, loading and off-loading of materials;

ISO-tank transportation;

Land Transport

Gadot offers land transport services to its customers for chemicals and other materials from Israeli ports to the customer's factory, and vice versa. Land transportation from chemical plants outside of Israel to Gadot's ships is provided by subcontractors.

Gadot currently owns a fleet of 73 tanker trucks and 123 trailers (of which 80 trailers are capable of transporting hazardous materials). The fleet of tanker trucks is generally in full use by Gadot, which occasionally is required to lease additional tanker trucks from other companies in order to fulfill demand. The trailer fleet is generally not in full use, due to the number of tanker trucks Gadot owns and the highly specialized purpose of each trailer.

Gadot faces much competition in this field, and it holds an estimated Israeli market share of 15% to 17%.

Storage, Loading and Off-Loading of Materials

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Gadot provides storage, loading and off-loading services of chemicals and other materials to its customers (including to subsidiaries in the Gadot group of companies) in an area located near the southern terminal of the Kishon port in Haifa.

Gadot is currently the only provider of chemical storage, loading and off-loading services in Israel. These services were declared a monopoly by the Israeli Antitrust Authority and are therefore subject to regulation, which includes a price list stipulated by the Antitrust Authority, and periodical inspections of profitability, the result of which may require Gadot to reduce its prices for these services. To date, Gadot has never received such an instruction. Gadot's quality control process for storage and loading has qualified for and received the ISO-9001 quality standard.

Gadot's facility currently has 80 storage tanks with capacities of between 30 to 2,650 cubic meters each, which are constantly maintained. The total storage capacity of these tanks is approximately 46,000 cubic meters. The facility also has a pipe loading system which allows for direct off-loading of liquid chemicals from a ship's tank to a storage tank.

Energy

EAST MEDITERRANEAN GAS COMPANY S.A.E

EMG, an Egyptian joint stock company, organized in accordance with the Egyptian Special Free Zones system, has been granted the right to export natural gas from Egypt to Israel, other locations in the East Mediterranean basin and to other countries. EMG has linked the Israeli energy market with the Egyptian national gas grid via an East Mediterranean pipeline with the first gas delivery occurring on May, 2008. EMG is the developer, owner and operator of the pipeline and its associated facilities on shore in both the point of departure at El Arish, Egypt and the point of entry in Ashkelon, Israel. In the Israeli market, EMG's first contract was signed in late 2005 with the Israel Electric Corporation for a quantity of 2.1 BCM annually over 15-20 years. EMG is in the process of negotiating several additional agreements covering much of the anticipated 7.0 BCM annually earmarked for the Israeli market. This project is governed by an agreement signed between Israel and Egypt which designates EMG as the authorized exporter of Egyptian gas, secures EMG's tax exemption in Israel and provides for the Egyptian government's guarantee for the delivery of the gas to the Israeli market.

On November 29, 2007, Ampal and the Israel Infrastructure Fund (IIF), leading a group of institutional investors, purchased a 4.3% interest in EMG, through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (the Joint Venture), from Merhav for a purchase price of approximately \$95.4 million, using funds provided by the Investors. In addition to the Joint Venture's purchase from Merhav., Ampal contributed into the Joint Venture an additional 4.3% interest in EMG already held by Ampal. The Joint Venture now holds a total of 8.6% of the outstanding shares of EMG. Ampal's contribution was valued at the same price per EMG share as the Joint Venture's purchase. This amount is equivalent to the purchase price (on a per share basis) paid by Ampal for its December 2006 purchase of EMG shares from Merhav.

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As of December 31, 2008, the Company's Financial Statements reflect a 16.8% interest in shares of EMG, with 8.2% held directly and 8.6% held through the Joint Venture (of which Ampal owns 50%). For more information concerning our interest in EMG please see Item 7 Management Discussion and Analysis of Financial Condition and Results of Operations below.

EMG, in which Ampal directly and indirectly owns a 12.5% interest (includes 4.3% held by the Joint Venture), have reached on February 2009 an agreement in principle with the Egyptian authorities with regard to repricing gas sold to EMG. The agreement is yet to be finalized in the form of an amendment to the agreement between EMG and its upstream supplier. To the best of Ampal's understanding from EMG, the agreement in principle with the Egyptian authorities includes various provisions designed to avoid adverse economic impact to EMG, and the two sides have committed to a good faith intensive effort to reach a definitive agreement with respect to supply and the price of gas to EMG. There is, however, no assurance that the negotiations will be completed or that the outcome will not adversely affect EMG. To the best of Ampal's understanding, recently other international companies purchasing gas from Egypt successfully completed such negotiations to all parties satisfaction. At this stage EMG is not supplying the full contracted quantities of the gas and to the best of Ampal's knowledge the full contracted quantities should begin to be supplied in the near future. The said price negotiations commenced on the request of the Egyptian Ministry of Trade and Infrastructure and were driven by the substantial increase in the energy prices since the existing gas purchase prices were determined in 2000.

In May 2008, the Government of Egypt adopted legislation that purports to revoke the tax free status of existing free zone companies operating in the iron, cement, steel, petroleum, liquification and transport of natural gas industries. The legislation, by its terms, would apply to EMG. Ampal understands that the impact of this recent change in law would be to impose a 20% tax on EMG's net future income. It is not clear to what extent the legislation will be enforced or whether it is valid under Egyptian legal principles. The legislation is, to Ampal's understanding, unusual, and it is not clear whether EMG will be successful in its negotiations and therefore what if any impact the legislation will ultimately have on EMG.

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On September 2008, Midroog downgraded the rating on Ampal's Series A and Series B Debentures from A2 to A3 and will continue to maintain Ampal on its Watchlist. Midroog concluded that there is a possibility that new agreements between EMG and the Egyptian gas supplier may adversely affect EMG's financial results compared to previous expectations, which will result in reduced cash flow from EMG to Ampal and other financial parameters resulting from such reduced cash flow. Midroog added that it will monitor the situation, including the negotiations between EMG and the Egyptian gas supplier, the regularity of the gas supply and other matters, and will review Ampal's rating accordingly. Ampal's rating will remain on the Watchlist.

Global Wind Energy Ltd. (GWE)

On November 25, 2007, Merhav Ampal Energy Ltd. (MAE) signed a joint venture agreement with Clal Electronics Industries Ltd. (Clal), an Israel-based holding company, for the formation of a joint venture that will focus on the new development and acquisition of controlling interests in renewable energy, including wind energy projects outside of Israel. The joint venture, owned equally by Clal and the Company through MAE, will seek to either develop or acquire wind energy opportunities with a goal of establishing at least 150MW of installed capacity within the next 3.5 years. The joint venture's initial project is the development of a wind farm in Greece. The Company has approved a Euro 25 million budget for these projects

As of December 2008, the Company has invested \$ 2.2 million in GWE.

Real Estate

BAY HEART LTD. (BAY HEART)

Bay Heart was established in 1987 to develop and lease a shopping mall (the Mall) in the Haifa Bay area. Haifa is the third largest city in Israel. The Mall, which opened in May 1991, is a three-story facility with approximately 280,000 square feet of rentable space. The Mall is located at the intersection of two major roads and provides a large mix of retail and entertainment facilities, including seven movie theaters. In 2008, the Mall completed extensive renovations, including the construction of a new complex of 23 movie theaters and entertainment facilities.

Leisure-Time

COUNTRY CLUB KFAR SABA LTD. (KFAR SABA)

Kfar Saba operates a country club facility (the Club) in Kfar Saba, a town north of Tel Aviv. Kfar Saba holds a long-term lease to the real estate property on which the Club is situated. The Club's facilities include swimming pools, tennis courts and a club house.

The Club, which has a capacity of 2,000 member families, operated at capacity for the 2008 season. The Company owns 51% of Kfar Saba.

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EMPLOYEES

The executive officers of Ampal are listed in Item 10 below.

As of December 31, 2008:

Ampal (Israel) Ltd. had 15 employees; and

Gadot, a wholly owned subsidiary of Ampal, had 660 employees; and

Country Club Kfar Saba Ltd., of which the Company owns a 51% interest, had 6 employees and 97 hourly based employees.

Relations between the Company and its employees are satisfactory.

CONDITIONS IN ISRAEL

Most of the companies in which Ampal directly or indirectly invests conduct their principal operations in Israel and are directly affected by the economic, political, military, social and demographic conditions there. A state of hostility, varying as to degree and intensity, exists between Israel and the Arab countries and the Palestinian Authority (the PA). Israel signed a peace agreement with Egypt in 1979 and with Jordan in 1994. Since 1993, several agreements have been signed between Israel and Palestinian representatives regarding conditions in the West Bank and Gaza. While negotiations have taken place between Israel, its Arab neighbors and the PA to end the state of hostility in the region, it is not possible to predict the outcome of these negotiations and their eventual effect on Ampal and its investee companies. Hamas, an Islamist movement, won the majority of the seats in the Parliament of the PA in January 2006 and took control of Gaza by force in June 2007. During the summer of 2006, Israel waged a war with the Hezbollah movement in Lebanon, which involved thousands of missile strikes in Northern Israel. Since June 2007, thousands of missiles have been fired from Gaza at population centers in southern Israel, leading to an armed conflict between Israel and Hamas in January 2009. In the meantime, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. This security situation has had an adverse effect on Israel's economy, primarily in the relevant geographic areas, and increased the political and military uncertainty in Israel and the Middle East. See Item 1A Risk Factors below for a further discussion of the possible impact of the political and military situation in Israel on the Company.

All male adult citizens and permanent residents of Israel under the age of 48 are obligated, unless exempt, to perform military reserve duty annually. Additionally, all these individuals are subject to being called to active duty at any time under emergency circumstances. Some of the officers and employees of Ampal's investee companies are currently obligated to perform annual reserve duty. While these companies have operated effectively under these requirements since they began operations, Ampal cannot assess the full impact of these requirements on their workforce or business if conditions should change. In addition, Ampal cannot predict the effect on its business in a state of emergency in which large numbers of individuals are called up for active duty.

CERTAIN UNITED STATES AND ISRAELI REGULATORY MATTERS

SEC Exemptive Order

In 1947, the SEC granted Ampal an exemption from the Investment Company Act of 1940, as amended (the 1940 Act), pursuant to an Exemptive Order. The Exemptive Order was granted based upon the nature of Ampal's operations, the purposes for which it was organized, which have not changed, and the interest of purchasers of Ampal's securities in the economic development of Israel. There can be no assurance that the SEC will not reexamine the Exemptive Order and revoke, suspend or modify it. A revocation, suspension or material modification of the Exemptive Order could materially and adversely affect the Company unless Ampal were able to obtain other appropriate exemptive relief. In the event that Ampal becomes subject to the provisions of the 1940 Act, it could be required, among other matters, to make changes, which might be material, to its management, capital structure and methods of operation, including its dealings with principal shareholders and their related companies.

TAX INFORMATION

Ampal (to the extent that it has income derived in Israel) and Ampal's Israeli subsidiaries are subject to taxes imposed under the Israeli Income Tax Ordinance. The corporate tax rate in Israel is 27% for the 2008 tax year. Following an amendment to the Israeli Income Tax Ordinance, which came into effect on January 1, 2006 (Amendment No. 147), the corporate tax rate is scheduled to be reduced as follows: 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. The Israeli tax rate on capital gains derived by a corporation after January 1, 2003, is generally 25%, however certain exemptions from capital gains tax may apply to non-Israeli resident corporations.

A tax treaty between Israel and the United States became effective on January 1, 1995 (the Treaty). The Treaty has not substantially affected the tax position of the Company in either the United States or in Israel.

Under Israeli domestic law Ampal, as a non-resident, is generally subject to withholding tax at a rate of 25% on dividends it receives from Israeli companies (20% for dividends received after January 1, 2006, under certain circumstances). This rate may be reduced to either 15% or 12.5%, (under Israeli law and/or the provisions of the Treaty), depending on the ownership percentage in the investee company, and on the type of income generated by such investee company from which the dividend is distributed (by contrast, dividends received by one Israeli company from another Israeli company are generally exempt from Israeli corporate tax, unless (i) they arise from income generated from sources outside of Israel, in which case they are generally subject to tax at a rate of 25% corporate tax rate (certain tax credits may be available for tax paid or withheld at source); or (ii) they are paid out of the profits of an approved enterprise to either residents or non-residents, in which case tax is withheld at a rate of 15%).

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Pursuant to an arrangement with the Israeli tax authorities, Ampal's income from Israeli sources has been taxed based on principles generally applied in Israel to income of non-residents. Ampal has filed agreed upon tax returns with the Israeli tax authorities through the tax year 2007. Based on the tax returns filed by Ampal through 2007, it has not been required to make any additional tax payments in excess of the tax withheld on dividends it has received. In addition, pursuant to Ampal's arrangement with the Israeli tax authorities, the aggregate taxes paid by Ampal in Israel and in the United States on interest, rent and dividend income derived from Israeli sources has not exceeded the tax which would have been payable by Ampal in the United States had such interest, rent and dividend income been derived by Ampal from United States sources. There can be no assurance that this arrangement will continue to be in effect in the future. This arrangement does not apply to taxation of Ampal's Israeli subsidiaries.

Generally, under the provisions of the Israeli Income Tax Ordinance, taxable income from Israeli sources paid to non-residents of Israel by residents of Israel is subject to withholding tax at the rate of 25%. However, such rate of withholding tax may be reduced under the Treaty, with respect to certain payments made by Israeli tax residents to US tax residents that qualify for benefits of the Treaty. For example, under the Treaty, the rate of withholding tax applicable to interest is generally reduced to 17.5%. The continued tax treatment of Ampal by the Israeli tax authorities in the manner described above is based, among other things, on Ampal continuing to be treated, for tax purposes, as a non-resident of Israel that is not doing business in Israel.

Under Israeli law, Israeli tax residents are taxed on capital gains generated from sources in Israel or outside of Israel, whereas non-residents are taxable only with respect to gains generated from sources in Israel. Gains are generally regarded as being from Israeli sources if arising from the sale of assets either located in Israel or which represent a right to assets located in Israel (including gains arising from the sale of shares in companies resident in Israel, and of rights in non-resident entities that mainly represent ownership and rights to assets located in Israel, with regard to such assets). Under the Treaty, US tax residents are subject to Israeli capital gains tax on the sale of shares in Israeli companies if they have held 10% or more of the voting rights in such companies at any time during the 12 months immediately preceding the sale.

Since January 1, 1994, the portion of the gain attributable to inflationary differences prior to that date is taxable at a rate of 10%, while the portion of the gain attributable to inflationary differences between such date and the date of disposition of the asset is exempt from tax. Non-residents of Israel are exempt from the 10% tax on the inflationary gain derived from the sale of shares in companies that are considered Israeli tax residents if they elect to compute the inflationary portion of the gain based on the change in the rate of exchange between Israeli currency and the foreign currency in which the shares were purchased, rather than the change in the Israeli consumer price index. Beginning January 1, 2006, the section of the Israeli Tax Ordinance under which the regulations providing such tax exemption to non-Israeli residents were promulgated, was rescinded. It is therefore unclear whether this exemption shall continue to be applicable. The remainder of the gain (Real Capital Gain), if any, is taxable to corporations at the rate of 25%. However, Real Capital Gains arising from the sale of capital assets that had been acquired prior to January 1, 2003 shall be apportioned on a linear basis to the periods before and after the same date, namely the portion of the gain attributed to the period before January 1, 2003 shall be subject to tax at a rate equal to the corporate tax rate in effect at the time of the sale (in 2008 27%) and a marginal tax rate (in 2008 47%) for individuals, whereas the portion of the gain attributed to the period after January 1, 2003 shall be taxed at the rate of 25%. Special rules apply with respect to listed securities.

Foreign corporations are generally exempt from tax on gains from the sale of shares in publicly traded companies if the capital gain was not generated from their permanent establishment in Israel. Amendment No. 147 introduces a broader exemption under domestic law for non-residents regardless of their percentage holding in an Israeli company (not holding real estate rights) to include capital gains from the sale of securities (even where not traded in Israel), which are purchased between July 1, 2005 through December 31, 2008, provided certain conditions are met. Amendment No. 169 to the Israeli Income Tax Ordinance, effective from January 1, 2009, expanded the earlier exemption from Israeli capital gains tax so that it applies to shares in an Israeli company acquired on or after January 1 2009 by any foreign resident investors, provided certain conditions are met. However, according to section 68A(a) of the Israeli Income Tax Ordinance, non-Israeli corporations are not entitled to any such exemption from Israeli capital gains tax if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

The Income Tax Law (Adjustment for Inflation), 1985 (Inflationary Adjustment Law), which had been in force until December 31, 2007, with respect to companies which have business income in Israel or which claim a deduction in Israel for financing costs, has been in force since the 1985 tax year. Under the Inflationary Adjustment Law, results for tax purposes are measured in real terms. The law provides for the preservation of equity, whereby certain corporate assets are classified broadly into Fixed (inflation resistant) and Non-Fixed (non-inflation resistant) Assets. Where shareholders' equity, as defined therein, exceeds the depreciated cost of Fixed Assets, a tax deduction which takes into account the effect of the annual inflationary change on such excess is allowed, subject to certain limitations. Conversely, if the depreciated cost of Fixed Assets exceeds shareholders' equity, then such excess, multiplied by the annual inflation change, is added to taxable income.

In February 2008, the Israeli legislature passed Amendment No. 20 to the Income Tax Law (Adjustment for Inflation), repealing the Income Tax Law (Adjustment for Inflation) as of January 1, 2008, with certain transitional orders. Under the Inflationary Adjustment Law,

results for tax purposes were measured in real terms.

Individuals and companies in Israel pay value added tax (VAT) at a rate of 15.5% of the price of assets (excluding shares) sold and services rendered. In computing its VAT liability, certain of Ampal's Israeli subsidiaries may be entitled to claim as a deduction input VAT they have incurred with respect to goods and services acquired for the purpose of their business, to the extent such transactions are subject to VAT.

United States Federal Taxation of Ampal

Ampal and its United States subsidiaries (in the following discussion, generally referred to collectively as Ampal U.S.) are subject to United States taxation on their taxable income, as computed on a consolidated basis, from domestic as well as foreign sources. The gross income of Ampal U.S. for United States tax purposes includes or may include (i) income earned directly by Ampal U.S., (ii) Ampal U.S.'s pro rata share of certain types of income, primarily subpart F income earned by certain Controlled Foreign Corporations in which Ampal U.S. owns or is considered as owning 10 percent or more of the voting power; and (iii) Ampal U.S.'s pro rata share of ordinary income and capital gains earned by certain Passive Foreign Investment Companies in which Ampal U.S. owns stock, and with respect to which Ampal has elected that such company be treated as a Qualified Electing Fund. Subpart F income includes, among other things, dividends, interest and certain rents and capital gains. Since 1993, the maximum federal rate applicable to domestic corporations is 35%.

Certain of Ampal's non-U.S. subsidiaries have elected to be treated as partnerships for U.S. tax purposes. As a result, Ampal is generally subject to U.S. tax on its distributive share of income earned by such subsidiaries (generally computed with reference to Ampal's proportionate interest in such entity), as it is earned, i.e. without regard to whether or not such income is distributed by the subsidiary. Certain of Ampal's wholly-owned non-U.S. subsidiaries have elected to be treated as disregarded entities for U.S. federal tax consequences. As a result, Ampal is subject to US tax on all income earned by such subsidiaries, as it is earned.

Ampal U.S. is generally entitled to claim as a credit against its United States income tax liability all or a portion of income taxes, or of taxes imposed in lieu of income taxes, paid to foreign countries. If Ampal U.S. receives dividends from a non-US corporation in which it owns 10% or more of the voting stock, Ampal U.S. is treated (in determining the amount of foreign income taxes paid by Ampal U.S. for purposes of the foreign tax credit) as having paid the same proportion of the foreign corporation's post-1986 foreign income taxes as the amount of such dividends bears to the foreign corporation's post-1986 undistributed earnings.

In general, the total foreign tax credit that Ampal U.S. may claim is limited to the same proportion of Ampal U.S.'s United States income taxes that its foreign source taxable income bears to its taxable income from all sources, US and non-US. This limitation is applied separately with respect to passive and active items of income, which may further limit Ampal's ability to claim foreign taxes as a credit against its U.S. tax liability. The use of foreign taxes as an offset against United States tax liability is further limited by certain rules pertaining to the sourcing of income and the allocation of deductions. As a result of the combined operation of these rules, it is possible that Ampal U.S. would exercise its right to elect to deduct the foreign taxes, in lieu of claiming such taxes as a foreign tax credit.

Ampal U.S. may also be subject to the alternative minimum tax (AMT) on corporations. Generally, the tax base for the AMT on corporations is the taxpayer's taxable income increased or decreased by certain adjustments and tax preferences for the year. The resulting amount, called alternative minimum taxable income, is then reduced by an exemption amount and subject to tax at a 20% rate. As with the regular tax computation, AMT can be offset by foreign tax credits as well as net operating losses (NOLs), both of which are separately calculated under AMT rules. The NOL is generally limited to 90% of the alternative minimum taxable income.

Available information

We maintain a website at www.ampal.com. We make available on our website under Investor Relations SEC Filings, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission.

FORWARD-LOOKING STATEMENTS

This Report (including but not limited to factors discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed elsewhere in this Report) includes forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to the Company that are based on the beliefs of management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Report, the words anticipate, believe, estimate, expect, intend, plan, and similar expressions, as they relate to the Company or the management of the Company identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events or future financial

performance of the Company, the outcome of which is subject to certain risks and other factors which could cause actual results to differ materially from those anticipated by the forward-looking statements, including among others, the economic and political conditions in Israel, the Middle East, including the situation in Iraq, the impact of the credit crisis and in the global business and economic conditions in the different sectors and markets where the Company's portfolio companies operate. These risks and uncertainties include, but are not limited to, those described in Item 1A Risk Factors and elsewhere in this Report and those described from time to time in our future reports filed with the Securities and Exchange Commission.

SHOULD ANY OF THOSE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS OR OUTCOME MAY VARY FROM THOSE DESCRIBED THEREIN AS ANTICIPATED, BELIEVED, ESTIMATED, EXPECTED, INTENDED OR PLANNED. SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE COMPANY OR PERSONS ACTING ON ITS BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS IN THIS PARAGRAPH AND ELSEWHERE DESCRIBED IN THIS REPORT AND OTHER REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE COMPANY ASSUMES NO OBLIGATION TO UPDATE OR REVISE FORWARD-LOOKING STATEMENTS.

ITEM 1A. RISK FACTORS

An investment in our securities involves risks and uncertainties. These risks and uncertainties could cause our actual results to differ materially from our historical results or the results contemplated by any forward-looking statements contained in this Report or that we make in other filings with the SEC under the Securities and Exchange Act of 1934 or in other public statements. The risks described below are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. You should consider the following factors carefully, in addition to the other information contained in this Report, before deciding to purchase, sell or hold our securities.

Because most of the companies in which we invest conduct their principal operations in Israel, we may be adversely affected by the economic, political, social and military conditions in the Middle East.

Most of the companies in which we directly or indirectly invest have principal operations that are Israel-related. We may, therefore, be directly affected by economic, political, social and military conditions in the Middle East, including Israel's relationship with the Palestinian Authority and Arab countries. In addition, many of the companies in which we invest are dependent upon materials imported from outside of Israel. We also have interests in companies that import and export significant amounts of products to and from Israel. Our existing 100% stake in Gadot (99.99% on a fully diluted basis), and our existing 16.8% stake in EMG (8.6% of which is held by the Joint Venture, of which Ampal owns 50%), an Egyptian joint stock company, together represent a substantial portion of our investment portfolio and may be particularly sensitive to conditions in the Middle East. Accordingly, our operations could be materially and adversely affected by acts of terrorism or if major hostilities should continue or occur in the future in the Middle East or trade between Israel and its present trading partners should be curtailed, including as a result of acts of terrorism in the United States. Any such effects may impact our value and the value of our investee companies.

Hamas, an Islamist movement, won the majority of the seats in the Parliament of the PA in January 2006 and took control of Gaza by force in June 2007. During the summer of 2006, Israel waged a war with the Hezbollah movement in Lebanon, which involved thousands of missile strikes in Northern Israel. Since June 2007, thousands of missiles have been fired from Gaza at population centers in southern Israel, leading to an armed conflict between Israel and Hamas in January 2009. In the meantime, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. This security situation has had an adverse effect on Israel's economy, primarily in the relevant geographic areas. Although we do not believe that this situation has had a material adverse effect on our business or financial condition, if such situation resumes and/or escalates, the adverse economic effect may deepen and spread to additional areas and may materially adversely affect the Company and its subsidiaries' business and financial condition.

Because of our significant investment in Gadot, we may be adversely affected by changes in the financial condition, business, or operations of Gadot.

As of December 31, 2008, the Company beneficially owns 100% of Gadot (99.99% on a fully diluted basis) and we consolidate Gadot in the accompanying financial statements. This investment constitutes one of our largest holdings. As a result, changes in the financial condition, business or operations of Gadot (see Risk Factors Risks Associated with Gadot's Business) will significantly affect our financial condition and results of operations. Furthermore, the current global economic downturn may materially adversely affect Gadot's business (see Risk Factors Conditions and changes in the national and global economic and political environments may adversely affect our business and financial results).

Although Gadot has historically paid dividends to its shareholders, changes in Gadot's operations may limit their ability to pay dividends in the future. Further, as a component of Ampal's consolidated financial statements any dividends paid will not be reflected as income by Ampal. While the payment of dividends would not impact Ampal's consolidated earnings, it could limit the financial resources available to operate the holding company which could adversely affect our operations and financial condition.

Because of our significant investment in EMG, we may be adversely affected by changes in the financial condition, business, or operations of EMG.

As of December 31, 2008, the Company beneficially owns approximately 16.8% of EMG (8.6% of which is held by the Joint Venture, of which Ampal owns 50%), a result of a series of transactions with our controlling shareholder, which was accounted as transaction between entities under common control. This investment constitutes one of our largest holdings. As a result, changes in the financial condition, business or operations of EMG, including, without limitation, gas supply interruptions such as those experienced during 2008, the completion of the pipeline, and the ability of EMG to utilize the pipeline, whether as a result of environmental, regulatory or political issues or otherwise, may impact our ability to receive dividends from EMG which could adversely affect our operations and financial condition. Additionally, we have a minority interest in EMG, and therefore, do not have the ability to significantly influence or direct the affairs of EMG.

EMG have reached in February 2009 an agreement in principle with the Egyptian authorities with regard to repricing gas sold to EMG. The agreement is yet to be finalized in the form of an amendment to the agreement between EMG and its upstream supplier. To the best of Ampal's understanding from EMG, the agreement in principle with the Egyptian authorities includes various provisions designed to avoid adverse economic impact to EMG, and the two sides have committed to a good faith intensive effort to reach a definitive agreement with respect to supply and the price of gas to EMG. There is, however, no assurance that the negotiations will be completed or that the outcome will not adversely affect EMG. To the best of Ampal's understanding, recently other international companies purchasing gas from Egypt successfully completed such negotiations to all parties' satisfaction. At this stage EMG is not supplying the full contracted quantities of the gas and to the best of Ampal's knowledge the full contracted quantities should begin to be supplied in the near future. The said price negotiations commenced on the request of the Egyptian Ministry of Trade and Infrastructure and were driven by the substantial increase in the energy prices since the existing gas purchase prices were determined in 2000.

In May 2008, the Government of Egypt adopted legislation that purports to revoke the tax free status of existing free zone companies which would also apply to EMG. The impact of this recent change in law would be to impose a 20% tax on EMG's future income. It is not clear to what extent the legislation will be enforced or whether it is valid under Egyptian legal principles. If such legislation is enforceable or valid under Egyptian law, it could adversely affect our operations and financial condition.

Conditions and changes in the national and global economic and political environments may adversely affect our business and financial results.

Adverse economic conditions in markets in which our investee companies operate can harm our business. Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. It is believed that the current recession will continue and worsen. With major financial institutions de-levering their balance sheets, credit was constricted for much of 2008 and may likely remain so for an extended period. Partly as a result, entire industries are facing extreme contraction and even the prospect of collapse. If economic growth in the United States and other countries continues to decline, this may have a negative impact on our liquidity, financial condition and stock price, which may impact the ability of the Company to obtain financing and other sources of funding in the future on terms favorable to the Company, if at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, it may materially adversely affect the Company's results of operations.

The SEC may re-examine, suspend or modify our exemption from the Investment Company Act of 1940, as amended.

In 1947, the SEC granted us an exemption from the 1940 Act, pursuant to an exemptive order. The exemptive order was granted based upon the nature of our operations. There can be no assurance that the SEC will not re-examine the exemptive order and revoke, suspend or modify it. A revocation, suspension or material modification of the exemptive order could materially and adversely affect us unless we were able to obtain other appropriate exemptive relief. In the event that we become subject to the provisions of the 1940 Act, we could be required, among other matters, to make changes, which might be material, to our management, capital structure and methods of operation, including our dealings with principal shareholders and their related companies.

As most of our investee companies conduct business outside of the United States, we are exposed to foreign currency and other risks.

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We are subject to the risks of doing business outside the United States, including, among other risks, foreign currency exchange rate risks, changes in interest rates, equity price changes of our investee companies, import restrictions, anti-dumping investigations, political or labor disturbances, expropriation and acts of war. No assurances can be given that we will be protected from future changes in foreign currency exchange rates that may impact our financial condition or performance.

Foreign securities or illiquid securities in our portfolio involve higher risk and may subject us to higher price volatility. Investing in securities of foreign issuers involves risks not associated with U.S. investments, including settlement risks, currency fluctuations, local withholding and other taxes, different financial reporting practices and regulatory standards, high costs of trading, changes in political conditions, expropriation, investment and repatriation restrictions, and settlement and custody risks.

Changes in taxation requirements could affect our financial results.

We are subject to income tax in the numerous jurisdictions in which we generate revenues. Increases in income tax rates could reduce our after-tax income from affected jurisdictions.

We have had a history of losses which may ultimately compromise our ability to implement our business plan.

We have had losses in four of the past five fiscal years. We will continue to make investments opportunistically and to divest ourselves from certain assets which we believe lack growth potential. However, if we are not able to generate sufficient revenues or we have insufficient capital resources, we will not be able to implement our business plan of investing in, and growing, companies with strong long-term growth prospectus and investors will suffer a loss in their investment. This may result in a change in our business strategies.

The loss of key executives could cause our business to suffer.

Yosef A. Maiman, the Chairman of our Board of Directors, President & CEO, and other key executives, have been key to the success of our business to date. The loss or retirement of such key executives and the concomitant loss of leadership and experience that would occur could adversely affect us.

We are controlled by a group of investors, which includes Yosef A. Maiman, our Chairman, and this control relationship could discourage attempts to acquire us.

A group of shareholders consisting of Yosef A. Maiman, the Chairman of our Board of Directors, President & CEO, Ohad Maiman, Noa Maiman, and Yoav Maiman, and the companies Merhav (De Majorca), De Majorca Holdings Ltd. and Di-Rapallo Holdings Ltd. (Di-Rapallo) beneficially owns approximately 61.22% of the voting power of our Class A Stock. The group was formed in recognition of the Maiman family's strong connection with the Company and in furtherance of the group's common goals and objectives as shareholders, including the orderly management and operation of the Company. By virtue of its ownership of Ampal, this group is able to control our affairs and to influence the election of the members of our Board of Directors. This group also has the ability to prevent or cause a change in control of Ampal. Mr. Maiman owns 100% of the economic shares and one-quarter of the voting shares of De Majorca and Di-Rapallo. Merhav is wholly owned by Mr. Maiman.

Because we are a controlled company, we are exempt from complying with certain listing standards of the NASDAQ Global Market (NASDAQ).

Because a group of investors who are acting together pursuant to an agreement hold more than 50% of the voting power of our Class A Stock, we are deemed to be a controlled company under the rules of NASDAQ. As a result, we are exempt from the NASDAQ rules that require listed companies to have (i) a majority of independent directors on the board of directors, (ii) a compensation committee and nominating committee composed solely of independent directors, (iii) the compensation of executive officers determined by a majority of the independent directors or a compensation committee composed solely of independent directors and (iv) a majority of the independent directors or a nominating committee composed solely of independent directors elect or recommend director nominees for selection by the board of directors. Accordingly, our directors who hold management positions or who are otherwise not independent have greater influence over our business and affairs.

We do not publish the value of our assets.

It is our policy not to publish the value of our assets or our views on the conditions of or prospects for our investee companies. To the extent the value of our ownership interests in our investee companies were to experience declines in the future, our performance would be adversely impacted.

We do not typically pay cash dividends on our Class A Stock.

We have not paid a dividend on our Class A Stock other than in 1995. Past decisions not to pay cash dividends on Class A Stock reflected our policy to apply retained earnings, including funds realized from the disposition of holdings, to finance our business activities and to redeem or repay our outstanding debt, including our \$216.7 million (as of December 31, 2008) unsecured notes on which principal payments commence in 2011. The payment of cash dividends in the future will depend upon our operating results, cash flow, working capital requirements and other factors we deem pertinent.

The market price per share of our Class A Stock on NASDAQ and TASE fluctuates and has traded in the past at less than our book value per share.

Stock prices of companies, both domestically and abroad, are subject to fluctuations in trading price. Therefore, as with a company like ours that invests in stocks of other companies, our book value and market price will fluctuate, especially in the short term. As of February 23, 2009 the market price on NASDAQ was \$1.29 per share. However our shares have in the past traded below book value. You may experience a decline in the value of your investment and you could lose money if you sell your shares at a price lower than you paid for them.

Our listing on NASDAQ requires us to satisfy a number of conditions, including a minimum bid price of at least \$1.00 per share. The NASDAQ has currently suspended this requirement until April 20, 2009. After this date, unless NASDAQ extends this requirement suspension, we will have to regain compliance with such requirement. We cannot assure you that we will be able to satisfy the minimum bid, or continue to meet the other continued listing requirements of NASDAQ in the future. If we are delisted from the NASDAQ, trading in our Class A Stock may be conducted, if available, on the OTC Bulletin Board or another medium. In the event of such delisting, an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of our Class A Stock, and our ability to raise future capital through the sale of our Class A Stock could be severely limited.

Our Class A Stock may not be liquid.

Our Class A Stock is currently traded on NASDAQ and the TASE. The trading volume of our Class A Stock may be adversely affected due to the limited marketability of our Class A Stock as compared to other companies listed on NASDAQ and the TASE. Accordingly, any substantial sales of our Class A Stock may result in a material reduction in price of our Class A Stock because relatively few buyers may be available to purchase our Class A Stock.

A further downgrade, or suspension or withdrawal of the rating assigned by a rating agency to our debentures could cause the liquidity or market value of the debentures to decline significantly.

As a result of events concerning EMG, Midroog downgraded the rating on Ampal's Series A and Series B Debentures from A2 to A3 and will continue to maintain Ampal on its Watchlist. Midroog stated that it will monitor the situation, including the negotiations between EMG and the Egyptian gas supplier, the regularity of the gas supply and other matters, and will review Ampal's rating accordingly. Ampal's rating will remain on the Watchlist. If Midroog further downgrades, suspends or withdraws the ratings of our debentures, we may experience increased difficulty in raising debt financing in the future.

Risks Associated with Gadot's Business

Global Economic Conditions. The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions. During 2008, both the prices and demand for chemicals have been volatile. The economic indicators from the United States and Europe have started to negatively influence demand. The economic slow down is already being felt in the construction sector, mainly in the United States, which had enjoyed significant growth in recent years. The construction sector is a large consumer of chemical products. A downturn in demand for chemical products may impact the financial condition or performance of Gadot's chemical products business.

Price Fluctuation. Gadot is exposed to fluctuations in chemical prices on the international market. It minimizes this risk by keeping surplus in stock only for its immediate needs, based on expected demand and past experience. Gadot is also exposed to fluctuations in shipping prices resulting from global supply and demand. Since Gadot's ship leases are generally for long term periods, a downturn in shipping prices may impact the financial condition or performance of Gadot's shipping business.

Price Fluctuation of Ship Fuel. Gadot is exposed to fluctuations in ship fuel prices, which have a direct affect on the profitability of its shipping operations. It minimizes this risk by using price adjustment mechanisms tracking the price of ship fuel in its shipping contracts with customers, especially in its long term contracts.

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Exchange Rates. Exchange rate fluctuations between the U.S. dollar and the New Israeli Shekel (NIS) may negatively affect Gadot's earnings. A substantial majority of Gadot's revenues and expenses are denominated in U.S. dollars. However, a significant portion of the expenses associated with Gadot's Israeli operations, including personnel and facilities related expenses, are incurred in NIS. Consequently, inflation in Israel will have the effect of increasing the dollar cost of Gadot's operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the U.S. dollar. In addition, if the value of the U.S. dollar decreases against the NIS, Gadot's earnings may be negatively impacted. In 2007, the U.S. dollar depreciated against the NIS by 8.53% and inflation increased by 3.5%. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the U.S. dollar or of the U.S. dollar against the NIS. If the U.S. dollar cost of Gadot's operations in Israel increases and if the current trend of depreciation of the U.S. dollar against the NIS continues, Gadot's dollar-measured results of operations will be adversely affected. In addition, exchange rate fluctuations in countries other than Israel where Gadot operates and does business may also negatively affect its earnings.

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Interest Rate Fluctuations. Gadot's operations are funded mostly through short term and long term bank debt, which causes an exposure to interest rate fluctuations.

Ecological Concerns and Licensing Requirements. Some of Gadot's products are characterized by high risk to those who might be exposed to them in the course of their handling and shipping. Some of the products may also potentially cause ecological damage and pollution, if not handled properly. The clean up and correction of such damage could cause Gadot to incur high costs.

Ongoing environmental pollution or contamination is not covered by Gadot's insurance policies for ecological damage. These policies only cover pollution caused by sudden, accidental and unexpected occurrences. Gadot takes safety measures to avoid such risks, such as laying concrete buffers to protect soil, continuous maintenance of chemical tanks and periodical ground sampling in the vicinity of chemical tanks. However, these precautions cannot ensure total prevention of contaminating water sources or ground.

In addition, licensing requirements around the world are becoming stricter, due to growing ecological awareness. Gadot may have to invest increasing amounts of money and resources in order to fulfill all international licensing requirements necessary for its operations.

Storage Facility License. Gadot's chemical storage facility is located on land owned by the Haifa port authority. A cancellation or termination of the licenses permitting Gadot to use the land would materially adversely affect Gadot's ability to operate its chemical storage facility.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTY

We lease our headquarters located at 10 Abba Even St., Herzliya. The lease is for a period of 10 years commencing on January 24, 2007. The annual rent for this lease is \$326,000. We sublease part of the offices for an annual sublease rent of \$90,805.

We also lease a headquarters office at 555 Madison Avenue in New York City from Rodney Company N.V., Inc. The lease is for a period of seven years commencing on October 15, 2002. The annual rent for this lease is \$125,268. On March 31, 2004, the Company closed this office and reopened it at the beginning of 2009. The office space has been subleased during the time that the Company did not use it.

Gadot leases a 17,000 square meter storage tank facility located in the northern bank of the Kishon port in Haifa from the port authority. The annual rent for this lease is \$1,4 million. The lease expires in 2022. Gadot also leases an additional 56,000 square meter area from the port authority located in the southern terminal of the Kishon port in Haifa in connection with its storage and loading services. The annual rent for this lease is \$1,6 million. See Item 1 Business Chemicals Gadot Chemical Tankers and Terminals Ltd. Storage, Loading and Off-Loading of Materials. This lease expires in 2014.

Gadot also owns an additional 20,000 square meters area adjacent to the northern terminal, serving as its Israeli logistics facility and for its analytical and quality assurance laboratory. Gadot also leases a 1,100 square meter building in Ohr Akiva, Israel the annual rent for this lease is

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\$75,750, a 7,500 square meter area in the Ashdod, Israel, industrial zone, the annual rent for this lease is \$115,992 and a 6,300 square meter area in Kiryat Atta, Israel, the annual rent for this lease is \$56,023.

Gadot owns approximately 45,000 square meters of land in Greece, which was occupied by a chemical terminal. This terminal was destroyed by a fire in July 2006.

As of December 31st, 2008, Gadot leases seven vessels, with an aggregate loading capability of approximately 87,000 tons. The lease period for four of the vessels is until 2011, out of which one vessel purchase option has been declared to be exercised during 2009. The lease period for an additional three of the vessels shall expire during 2009 with an option to extend the time-charter terms for two additional years. An additional leased vessel was returned to the owner during October 2008. The aggregate lease fees for the eight leased vessels in 2008 amounted to \$34 million. In 2009, the lease payments are expected to amount to approximately \$24.8 million due to returning of two vessels and are expected to decrease to \$9.9 million for the year 2010 and thereafter are expected to decrease to \$6.4 million.

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Gadot has contracted a shipyard for the construction of four additional vessels built with a loading capability of 17,500 each, for a consideration of approximately \$29 million per vessel. These vessels will be delivered during 2010 and 2011.

Country Club Kfar Saba Ltd. occupies a 7-1/4 acre lot in the town of Kfar Saba which will be leased for five consecutive ten-year periods, at the end of which the land returns to the lessor. The lease expires on July 14, 2038, and lease payments in 2008 totaled \$235,645.

Other properties of the Company are discussed elsewhere in this Report. See Item 1 Business.

ITEM 3. LEGAL PROCEEDINGS

On January 1, 2002, Galha (1960) Ltd. (Galha) filed a suit against the Company and other parties, including directors of Paradise Industries Ltd. (Paradise) appointed by the Company, in the Tel Aviv District Court, in the amount of NIS 11,560,000 (\$3 million). Galha claimed that the Company, which was a shareholder of Paradise, and another shareholder of Paradise, misused funds that were received by Paradise from an insurance company for the purpose of reconstructing an industrial building owned by Galha and used by Paradise which burnt down. Paradise is currently involved in liquidation proceedings. Ampal issued a guarantee in favor of Galha for the payment of an amount of up to NIS 4,172,000 (\$1,085,000) if a final judgment against the Company will be given.

On May 26, 2003, the Company and the directors of Paradise appointed by the Company filed a third party claim against Ariei Israeli Insurance Company Ltd. in the Tel Aviv District Court claiming that, to the extent the court decides that the directors of Paradise appointed by the Company will have to pay any amounts to Galha, Ariei will pay such amounts on behalf of the directors in accordance with the Directors and Officers insurance policy that the Company had at that time with Ariei. Ariei filed a statement of defense and stated that the policy does not cover the claim. The dispute was submitted to mediation. In the mediation procedure the parties arrived to an agreement that was approved as a judgment of the Tel Aviv District Court on January 13, 2009. According to the judgment Ampal paid the Plaintiffs an amount of NIS 834,200 (\$219,411), Ariei paid an amount of \$150,000 and a third defendant paid an amount of NIS 135,800 (\$35,718). The judgment stated that claim was declined against all defendants and the guarantee Ampal issued in favor of the Galha was cancelled.

Claims Against Subsidiaries and Affiliates

Legal claims arising in the normal course of business have been filed against subsidiaries and affiliates of the Company.

Gadot has received third party notices in a number of lawsuits regarding pollution of the Kishon River in Israel. These lawsuits have been filed by various claimants who claim harm by the polluted water of the river, including soldiers from various units in the Israeli Defense Forces who trained in the river, fishermen who fished in the river, the Haifa rowing club and industrial companies that use the river. Some of the lawsuits are claims for monetary damages (some of the claims are unlimited in amount; one is for approximately \$6 million) and some are for injunctions against further pollution of the river. Gadot denies liability in all these claims and has filed statements of defense for each claim. Part of Gadot's storage tank facility is leased from the Haifa port authority. In 2001 the port authority requested that Gadot participate in an offer to find a consultant to examine ground contamination in the area surrounding the facility.. Gadot has responded, denying the existence of ground contamination and, in any case, that it is the source of such contamination. Gadot believes that if there is contamination, its source is the contaminated waters of the Kishon River or the Mediterranean Sea.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At an annual meeting of shareholders called and convened on November 5, 2008, the following proposals were approved by the margins indicated below:

1. Proposal to elect the nine directors listed below to the Board of Directors of Ampal to hold office for one-year terms and until their respective successors shall be elected and qualified:

	<u>For</u>	<u>Withheld Authority</u>
Yosef A. Maiman	44,907,717	605,573
Leo Malamud	44,863,879	649,411
Dr. Joseph Yerushalmi	44,920,563	592,727
Dr. Nimrod Novik	44,929,398	583,892
Yehuda Karni	45,338,292	174,998
Eitan Haber	45,340,781	172,509
Menahem Morag	45,339,881	173,409
Joseph Geva	45,328,037	185,253
Erez I. Meltzer	44,920,398	583,892

2. Proposal to ratify the appointment of Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, as the independent registered public accounting firm of Ampal for the fiscal year ending December 31, 2008.

<u>For</u>	<u>Against</u>	<u>Abstained</u>
45,347,246	130,441	35,603

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****PRICE RANGE OF CLASS A STOCK**

Ampal's Class A Stock is listed on NASDAQ Global Market under the symbol AMPL. The following table sets forth the high and low bid prices for the Class A Stock, by quarterly period for the fiscal years 2008 and 2007, as reported by NASDAQ Global Market and representing inter-dealer quotations which do not include retail markups, markdowns or commissions for each period, and each calendar quarter during the periods indicated. Such prices do not necessarily represent actual transactions.

<u>High</u>	<u>Low</u>
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2008:

	High	Low
Fourth Quarter	3.24	0.50
Third Quarter	5.99	2.70
Second Quarter	7.09	4.30
First Quarter	7.71	5.54
2007:		
Fourth Quarter	8.50	5.63
Third Quarter	6.27	4.95
Second Quarter	6.95	4.27
First Quarter	5.03	4.28

As of February 23, 2009, there were approximately 1,258 record holders of Class A Stock.

Ampal listed its Class A Stock on the TASE on August 6, 2006, and since then it has been a dual listed company.

VOTING RIGHTS

The holders of Class A Stock are entitled to one vote per share on all matters voted upon. The shares of Class A Stock do not have cumulative voting rights in relation to the election of the Company's directors, which means that any holder of at least 50% of the Class A Stock can elect all of the members of Board of Directors of Ampal.

DIVIDEND POLICY

Ampal has not paid a dividend on its Class A Stock other than in 1995. Past decisions not to pay cash dividends on Class A Stock reflected the policy of Ampal to apply retained earnings, including funds realized from the disposition of holdings, to finance its business activities and to redeem debentures. The payment of cash dividends in the future will depend upon the Company's operating results, cash flow, working capital requirements and other factors deemed pertinent by the Board. Ampal is subject to limitations on certain distributions and dividends to stockholders. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation.

For equity compensation plan information required by Item 201(d) of Regulation S-K, please see Item 12" below.

ISSUER PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Ampal's Board of Directors approved a stock repurchase program, effective as of November 23, 2008. Under the program, Ampal is authorized to repurchase up to \$20 million of its outstanding shares of its Class A Stock, from time to time depending on market conditions, share price and other factors. The repurchases may be made on the open market, in block trades or otherwise and may include derivative transactions. The program may be suspended or discontinued at any time. Ampal also adopted a Rule 10b5-1 trading plan, which allows Ampal to repurchase its Class A Stock in the open market during periods in which stock trading is otherwise prohibited to Ampal due to insider trading laws. The repurchase program is funded using Ampal's available cash and by possible future borrowings.

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During the fourth quarter of the fiscal year ended December 31, 2008, Ampal made the following stock repurchases pursuant to the stock repurchase program:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
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	(a)	(b)	(c)	(d)
Month #1 (October 1 st to October 31 st)	29,882 ⁽²⁾	\$ 3,008 ⁽²⁾	-	-
Month #2 (November 1 st to November 30 th)	-	-	-	-
Month #3 (December 1 st to December 31 st)	1,366,415	\$ 0.787	1,366,415	\$ 18,900,000
Total	1,396,297	\$ 0.835	1,366,415	\$ 18,900,000

⁽¹⁾ On November 24, 2008, Ampal announced that its Board of Directors approved a repurchase program, effective November 23, 2008, to repurchase up to \$20 million of its Class A Stock.

⁽²⁾ These purchases were made by Merhav, an affiliated purchaser as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, pursuant to a Rule 10b5-1 trading plan, which was terminated on October 7, 2008.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended December 31, 2006, 2007 and 2008 and consolidated balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements included in this Report. The selected consolidated statement of operations data for the years ended December 31, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004, 2005 and 2006 have been derived from our unaudited consolidated financial statements not included herein.

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This data should be read in conjunction with our consolidated financial statements and related notes included herein and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Fiscal year ended December 31,				
	2008	2007	2006 ⁽³⁾⁽¹⁾	2005 ⁽¹⁾	2004 ⁽¹⁾
				Unaudited	Unaudited
	(U.S. dollars in thousands, except per share data)				
Revenues	\$ 556,637	\$ 37,797	\$ 14,544	\$ 21,519	\$ 22,672
Loss from continuing operations	(16,711)	(13,578)	(6,027)	(5,916)	(18,502)
Income (loss) from discontinued operations, net of tax	-	21,344	(1,060)	(42)	(117)
Net income (loss)	\$ (16,711)	7,766	\$ (7,087)	\$ (5,958)	\$ (18,385)
Basic and diluted EPS ⁽²⁾ :					
Loss from continuing operations	\$ (0.29)	\$ (0.26)	\$ (0.35)	\$ (0.31)	\$ (0.94)
Income (loss) from discontinued operations, net of tax	\$ -	\$ 0.42	\$ (0.05)	\$ -	\$ -
	(0.29)	0.16	(0.40)	(0.31)	(0.94)
Total assets	\$ 935,917	\$ 774,789	\$ 401,683	\$ 211,485	\$ 304,947

Fiscal year ended December 31,

Notes, loans and debentures payable	\$ 596,456	\$ 403,367	\$ 104,163	\$ 50,366	\$ 120,796
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- (1) Results have been restated for the discontinued operations of our real estate operations, which was sold in August 2007.
- (2) Computation for the years 2006, 2005 and 2004 is based on net income (loss) after deduction of preferred stock dividends (in thousands) of \$2,438, \$191 and \$200, respectively for those years. On July 31, 2006, all of the preferred stock was converted into Class A Stock.
- (3) In 2006, the Company changed the method by which it accounts for share-based compensation by adopting SFAS 123R, which resulted in expenses of \$1,365, \$783 and \$720 thousand for the years 2008, 2007 and 2006, respectively and impacted the EPS by \$ (0.03), \$(0.015) and \$(0.03) respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We seek to maximize shareholder value through acquiring and investing in companies that we consider have the potential for growth. In utilizing our core competencies and financial resources, our investment portfolio primarily focuses on Israel-related companies engaged in various market segments including Chemicals, Energy, Real Estate, Project Development and Leisure Time.

Our investment focus is primarily on companies or ventures where we can exercise significant influence, on our own or with investment partners, and use our management experience to enhance those investments. We are also monitoring investment opportunities, both in Israel and abroad, that we believe will strengthen and diversify our portfolio and maximize the value of our capital stock. In determining whether to acquire an interest in a specific company, we consider the quality of management, return on investment, growth potential, projected cash flow, investment size and financing, and reputable investment partners. We also provide our investee companies with ongoing support through our involvement in the investee companies' strategic decisions and introductions to the financial community, investment bankers and other potential investors both in and outside of Israel.

For a description of significant developments during 2008, see Item 1 Business Significant Developments during 2008.

Our results of operations are directly affected by the results of operations of our investee companies. A comparison of the financial statements from year to year must be considered in light of our acquisitions and dispositions during each period.

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The results of investee companies which are greater than 50% owned by us are included in the consolidated financial statements. We account for our holdings in investee companies over which we exercise significant influence, generally 20% to 50% owned companies (affiliates), under the equity method. Under the equity method, we recognize our proportionate share of such companies' income or loss based on its percentage of direct and indirect equity interests in earnings or losses of those companies. The results of operations are affected by capital transactions of the affiliates. Thus, the issuance of shares by an affiliate at a price per share above our carrying value per share for such affiliate results in our recognizing income for the period in which such issuance is made, while the issuance of shares by such affiliate at a price per share that is below our carrying value per share for such affiliate results in our recognizing a loss for the period in which such issuance is made. We account for our holdings in investee companies, other than those described above, on the cost method or in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. In addition, we review investments accounted for under the cost method and those accounted for under the equity method periodically in order to determine whether to maintain the current carrying value or to write down some or all of the investment. For more information as to how we make these determinations, see Critical Accounting Policies.

For those subsidiaries and affiliates whose functional currency is considered to be a currency other than the US dollar, assets and liabilities are translated at the rate of exchange at the end of the reporting period and revenues and expenses are translated at the average rates of exchange during the reporting period. Translation differences of those foreign companies' financial statements are included in the cumulative translation adjustment account (reflected in accumulated other comprehensive loss) of shareholders' equity. Should the exchange rate of those other currencies change against the U.S. dollar, cumulative translation adjustments are likely to be effected in the shareholders' equity. As of December 31, 2008, the accumulated effect on shareholders' equity was a decrease of approximately \$1.3 million. Upon the disposition of an investment,

the related cumulative translation adjustment balance will be recognized in determining gains or losses.

CRITICAL ACCOUNTING POLICIES

The preparation of Ampal's consolidated financial statements is in conformity with generally accepted accounting principles in the United States (US GAAP) which requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Ampal's business activities, described below are certain Ampal accounting policies that are relatively more important to the portrayal of its financial condition and results of operations and that require management's subjective judgments. Ampal bases its judgments on its experience and various other assumptions that it believes to be reasonable under the circumstances. Please refer to Note 1 to Ampal's consolidated financial statements included in this Report for the fiscal year ended December 31, 2008 for a summary of all of Ampal's significant accounting policies.

Business combinations

Business combinations have been accounted for using the purchase method of accounting. Under the purchase method of accounting the results of operations of the acquired business are included from the date of acquisition. The costs of acquiring companies, including transactions costs, have been allocated to the underlying net assets of each acquired company in proportion to their respective fair values. Any excess of the purchase price over estimated fair values of the identifiable net assets acquired has been recorded as goodwill.

Investment in EMG and other cost basis investments

The Company accounts for its 16.8% equity interest (includes 8.6% held by the Joint Venture) in EMG and a number of other investments on the basis of the cost method. EMG, which is one of the Company's most significant holdings as of December 31, 2008, was acquired by Ampal and by a joint venture in which Ampal is a party in a series of transactions from Merhav, which is an entity controlled by one of the members of the Company's controlling shareholder group. As a result, the transactions were accounted for as transfers of assets between entities under common control, which resulted in Merhav transferring the investment in EMG at carrying value. Due to the nature of Merhav's operations, this entity would be treated as an investment company under US GAAP, and as such, the carrying value of the investment in EMG would equal fair value. As a result, the 16.8% investment in EMG was transferred at carrying value, which equals fair value. Application of the cost basis method requires the Company to periodically review these investments in order to determine whether to maintain the current carrying value or to write down some or all of the investment. While the Company uses some objective measurements in its review, such as the portfolio company's liquidity, burn rate, termination of a substantial number of employees, achievement of milestones set forth in its business plan or projections and seeks to obtain relevant information from the company under review, the review process involves a number of judgments on the part of the Company's management. These judgments include assessments of the likelihood of the company under review to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments the Company must also attempt to anticipate trends in the particular company's industry as well as in the general economy. There can be no guarantee that the Company will be accurate in its assessments and judgments. To the extent that the Company is not correct in its conclusion it may decide to write down all or part of the particular investment.

Marketable Securities

We determine the appropriate classification of marketable securities at the time of purchase. We hold marketable securities classified as trading securities that are carried at fair value. We classify investment in marketable securities as investment in trading securities, if those securities are bought and held principally for the purpose of selling them in the near term (held for only a short period of time). All the other securities are classified as available for sale securities.

SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 59, *Accounting for Noncurrent Marketable Equity Securities*, provides guidance on determining when an investment is other-than-temporarily impaired. Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of the investee; and our intent and ability to hold the investment. Investments with an indicator are further evaluated to determine the likelihood of a significant adverse effect on the fair value and amount of the impairment as necessary. If market, industry and/or investee conditions deteriorate, we may incur future impairments.

Long-lived assets

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On January 1, 2002, Ampal adopted SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires that long-lived assets, to be held and used by an entity, be reviewed for impairment and, if necessary, written down to the estimated fair values, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. A valuation allowance is currently set against certain tax assets because management believes it is more likely than not that these deferred tax assets will not be realized through the generation of future taxable income.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to realize any future benefit from our deferred tax assets. In the event that actual results differ from these estimates or we adjust these estimates in future periods, our operating results and financial position could be materially affected.

We account for uncertain tax positions in accordance with FIN 48. The application of income tax law is inherently complex. As such, we are required to make many assumptions and judgments regarding our income tax positions and the likelihood of such tax positions being upheld if challenged by applicable regulatory authorities. Interpretations and guidance surrounding income tax laws and regulations change over time. As such, changes in our assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

Employee Stock-Based Compensation

Prior to January 1, 2006, we accounted for employees' share-based payment under the intrinsic value model in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations. In accordance with Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (FAS 123), as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, we disclosed pro forma information assuming we had accounted for employees' share-based payments using the fair value-based method defined in FAS 123.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-based Payment (FAS 123(R)). FAS 123(R) supersedes APB 25 and related interpretations and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows (FAS 95). FAS 123(R) requires awards classified as equity awards to be accounted for using the grant-date fair value method. The fair value of stock options is determined based on the number of shares granted and the price of our common stock, and determined based on the Black-Scholes models, net of estimated forfeitures. We estimated forfeitures based on historical experience and anticipated future conditions.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107). SAB 107 provides supplemental implementation guidance on FAS 123(R), including guidance on valuation methods, inventory capitalization of share-based compensation cost, income statement effects, disclosures and other issues. SAB 107 requires share-based payment to be classified in the same expense line items as cash compensation. We have applied the provisions of SAB 107 in our implementation of FAS 123(R).

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We elected to adopt the modified prospective transition method, permitted by FAS 123(R). Under such transition method, FAS 123(R) was implemented as of the first quarter of 2006 with no restatement of prior periods. The valuation provisions of FAS 123(R) apply to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of January 1, 2006, is recognized over the remaining service period using the grant-date fair value of those awards as calculated for pro forma disclosure purposes under FAS 123.

The cumulative effect of our adoption of FAS 123(R), as of January 1, 2006, was not material.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 157 Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). In February 2008, the FASB deferred for one additional year the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the parts of SFAS 157 that became effective in 2008 did not have a material impact on the Company's financial statements. The Company is currently evaluating the impact, if any, the adoption of the remaining parts of SFAS 157 will have on its financial statements.

SFAS No. 141R Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) which replaces SFAS No. 141, Business Combination . SFAS 141R establishes the principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) discloses the business combination. This Statement applies to all transactions in which an entity obtains control of one or more businesses, including transactions that occur without the transfer of any type of consideration. SFAS 141R will be effective on a prospective basis for all business combinations on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Early adoption is not allowed. The Company is in process of evaluating the impact, if any, the adoption of SFAS 141R will have on the Company's consolidated results of operations or financial position.

SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" (SFAS 160). SFAS 160 amends ARB No. 51 and establishes accounting and reporting standards that require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be remeasured at fair value, with any gain or loss recognized in earnings. SFAS 160 will be effective for the Company commencing January 1, 2009, except for the presentation and disclosure requirements, which will be applied retrospectively. Early adoption is not allowed. The Company is in process of evaluating the impact, if any, that the adoption of SFAS 160 will have on the Company's consolidated results of operations or financial position.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities

In March 2008, FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161). FAS 161 amends and expands the disclosure requirements of FAS 133 to clarify how and why companies use derivative instruments. In addition, FAS 161 requires more disclosures regarding how companies account for derivative instruments and the impact derivatives have on a company's financial statements. This statement is effective for us beginning in 2009 and will only impact our disclosures. It will have no impact on our financial position, results of operations and cash flows.

SFAS No. 142-3 Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FASB Staff Position (the FSP) FAS No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, Business Combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a significant impact on the Company's results of operations, financial condition or liquidity.

RESULTS OF OPERATIONS**Fiscal year ended December 31, 2008 compared to fiscal year ended December 31, 2007:***General*

The Company recorded a consolidated net loss of \$16.7 million for the fiscal year ended December 31, 2008, as compared to a net income of \$7.8 million for the same period in 2007. The decrease in earnings is primarily attributable to the gain on sale of discontinued operations in 2007, the increase in interest expense and increase in the Israeli consumer price index that the Company's debentures (issued in 2008) are linked to.

In 2008 the Company included the results of operations of Gadot, which was purchased in three parts, on December 3, 2007, June 3, 2008 and August 12, 2008. In 2007, the Company included the result of operations of Gadot for one month – December. Below is data of Gadot results of operations (in millions of dollar):

	<u>2008</u>	<u>December 2007</u>
Chemical income	\$ 534.9	\$ 28.5
Chemical expense	\$ 497.6	\$ 26.2
Marketing expense	\$ 10.8	\$ 0.7
Other expense (mainly general and administrative)	\$ 21.7	\$ 1.0
Interest expense	\$ 7.8	\$ 0.2
Net gain	\$ 1.9	\$ 2.8

In the fiscal year ended December 31, 2008, the Company recorded \$10.8 million of marketing expense, as compared to \$0.7 million of marketing expense in the corresponding period in 2007. These expenses are attributable to Gadot, whose results of operation were consolidated for the first time in December 2007. Marketing expense is composed mainly of salary and commission expenses.

In the fiscal year ended December 31, 2008, the Company recorded a \$41.4 million of general, administrative and other expense, as compared to \$14.7 million in the corresponding period in 2007. The increase is mainly due to consolidating Gadot for the first time in December 2007.

In the fiscal year ended December 31, 2008, the Company recorded a \$1.4 million of Minority interests in gain of subsidiaries, net, as compared to \$1.6 million in the corresponding period in 2007. These losses are mainly attributable to translation gain in the notes issued to the partners in the Joint Venture, resulting from valuation of the New Israeli Shekel compared to the U.S. Dollar.

In the fiscal year ended December 31, 2008, the Company recorded a \$41.1 million interest expense, as compared to a \$10.1 million interest expense for the corresponding period in 2007. The increase in interest expense relates to the increase in notes payable which the Company received to finance the purchase of Gadot, issuance of the Company's Series B debentures, increase in the Israeli consumer price index and the interest expense of Gadot which the Company included for the first time in December 2007.

In the fiscal year ended December 31, 2008, the Company recorded a \$13.2 million translation gain, as compared to a \$3.1 million translation loss for the corresponding period in 2007. The increase in translation gain is related to a change in the valuation of the New Israeli Shekel as compared to the U.S. Dollar that mainly influenced the Company's Series B debentures that were issued in April, 2008.

In the fiscal year ended December 31, 2008, the Company recorded \$1.3 million of net realized gain on investments, compared to \$0.6 million of net realized gain in the same period in 2007. The net gain recorded in 2008 was primarily attributable to the sale of Hod Hasharon Limited Partnership (\$0.8 million gain), the sale of certain assets by PSINet Europe, one of the holdings of one of Ampal's investee companies Telecom Partners (TP) (\$0.2 million gain), sale of certain assets by Ophir Holdings (\$0.2 million gain) and the sale of certain assets by FIMI Opportunity Fund L.P (FIMI) (\$0.1 million gain).

Result of Operations Analyzed by Segments

	2008	2007
	(U.S. dollars in thousands)	
Revenues:		
Chemicals	\$ 535,424	\$ 31,922
Energy	-	-
Finance	19,852	4,867
Real Estate	-	-
Leisure-Time	2,770	2,531
Intercompany adjustments	-	-
	<u>558,046</u>	<u>39,320</u>
Equity in earning of affiliates	(1,409)	(1,523)
Total	<u>\$ 556,637</u>	<u>\$ 37,797</u>

In the fiscal year (i.e. twelve months of operation) ended December 31, 2008, the Company recorded \$556.6 million in revenue which was comprised of \$535.4 million in the Chemicals segment, due to the acquisition of Gadot in 2007 and 2008, \$19.9 million in the Finance segment, \$2.8 million in the Leisure-Time segment and a \$1.4 million loss in equity, as compared to \$37.8 million for the same period in 2007 which was comprised of \$31.9 million in the Chemicals segment, \$4.9 million in the Finance segment, \$2.5 million in the Leisure-Time segment and a \$1.5 million loss in equity. The increase in the Finance segment revenue is primarily related to the increase in realized and unrealized gains on marketable securities and interest income from deposits.

All the Chemicals revenues are attributed to Gadot. Gadot's revenues in the year ended December 31, 2008 increased by 49% as compared to the revenues in the year ended December 31, 2007. This increase is mainly attributed to the consolidation for the first time of a subsidiary of Gadot that Gadot purchased in 2008. If eliminating the contribution to revenues of such subsidiary, the revenues of Gadot in the year ended December 31, 2008 decreased by 26% as compared to the revenues in the year ended December 31, 2007. This increase in revenues is attributed to the winding-up of Chem Tankers C.V., a 50% limited partnership, as of April 30, 2008, resulting in the distribution of the operating routes between the partners, previously presented as Equity earning of unconsolidated subsidiary, and to the increase in crude oil prices and its derivatives in the petrochemical industry.

	2008	2007
	(U.S. dollars in thousands)	
Expenses:		
Chemicals	\$ 540,424	\$ 27,788
Energy	-	-
Finance	35,294	25,216
Real Estate	-	-
Leisure-Time	2,756	2,420
	<u>578,474</u>	<u>55,424</u>
Total	<u>\$ 578,474</u>	<u>\$ 55,424</u>

In the fiscal year (i.e. twelve months of operation) ended December 31, 2008, the Company recorded \$578.5 million in expenses which was comprised of \$540.4 million in the Chemicals segment, due to the acquisition of Gadot in 2007 and 2008, \$35.3 million in the Finance segment and \$2.8 million in the Leisure-Time segment, as compared to \$55.4 million expense for the same period in 2007 which was comprised of \$27.8

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million in the Chemicals segment, \$25.2 million in the Finance segment and \$2.4 million in the Leisure-Time segment. The increase in expenses in the Finance segment is primarily attributable to the increase in interest expense related to the notes issued to institutional investors in Israel and loans payable received from Israel Discount Bank Ltd..

All the Chemicals expenses are attributed to Gadot. Gadot's expenses in the year ended December 31, 2008 increased by 51% as compared to the expenses in the year ended December 31, 2007. This increase is mainly attributed to the consolidation for the first time of a subsidiary of Gadot that Gadot purchased in the year ended December 31, 2008. If eliminating the contribution to expenses of such subsidiary, the expenses of Gadot in the year ended December 31, 2008 increased by 26% as compared to the expenses in the year ended December 31, 2007. This increase in expenses is attributed to winding-up of Chem Tankers C.V., a 50% limited partnership, as of April 30, 2008, a 50% limited partnership resulting in the distribution of the operating routes between the partners, previously presented as Equity earning of unconsolidated subsidiary, and to the increase in crude oil prices and its derivatives in the petrochemical industry.

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Fiscal year ended December 31, 2007 compared to fiscal year ended December 31, 2006:

General

The Company recorded a consolidated net income of \$7.8 million for the fiscal year ended December 31, 2007, as compared to a net loss of \$7.1 million for the same period in 2006. The increase in earnings is primarily attributable to the gain on sale of discontinued operations, increase in interest income and including Gadot's operation for the month of December 2007 for the year ended December 31, 2007, as compared to the same period in 2006. This increase in earnings was partially offset by decrease in net realized gains from investments, losses from affiliates, decrease in marketable securities gain, increase in gain from sale of fixed assets, increase from impairment of investment and increase in interest expenses and translation loss.

On December 3, 2007, the Company completed the purchase of a 65.5% controlling interest (63.66% on a fully diluted basis) in Gadot. The results of operations of Gadot were included in the consolidated financial statements of the Company commencing November 30, 2007. The Company believes that the results of operations of Gadot will have an impact on its results in future periods.

Gadot's revenues for the one month, which were included in our results of operations for the year ended December 31, 2007, were approximately \$31.9 million and its net income was approximately \$2.8 million (\$1.8 million net of Minority).

On August 5, 2007, the Company sold all of its interest in Am-Hal, a 100% wholly owned subsidiary, which accounted for a majority of the Company's Real Estate Segment, for \$29.3 million. The recorded gain relating to the sale is \$29.4 million (\$21.8 million net of taxes) and it was recorded as a gain on sale from discontinued operation. Loss for 2007 attributable to Am-Hal of \$0.4 million compared to a \$1.1 million loss for 2006 is recorded as a loss from discontinued operations.

Income from equity of affiliates decreased to a net loss of \$1.5 million for the fiscal year ended December 31, 2007, compared to a net gain of \$1.6 million for the same period in 2006. The decrease is primarily attributable to the sale of Coral World International Limited (CWI) in June 2006, which had recorded a gain of \$1.6 million in 2006, the increase in losses from Bay-Heart which recorded a loss of \$1.5 million in 2007 compared to \$0.7 million in 2006, the sale of Carmel in May 2007, which recorded earnings of \$0.1 million in 2007, compared to earnings of \$0.5 million in 2006 and loss from Chem-Tankers C.V. a 50% partnership held by Gadot.

In the fiscal year ended December 31, 2007, the Company recorded \$0.6 million of net realized gain on investments, as compared to \$4.4 million of net realized gain in the same period in 2006. On May 21, 2007, the company sold all of its investment in Carmel Containers Ltd. (Carmel) for \$4.6 million. No gain was recorded relating to the sale of Carmel since an impairment was recorded during the first quarter of 2007. The additional sale of certain assets by FIMI Opportunity Fund L.P (FIMI) contributed most of the gain in 2007 (\$0.5 million gain). The net gain recorded in 2006 was primarily attributable to the sale of CWI (\$4.2 million gain), additional proceeds from the sale of Modem Art Ltd. (Modem Art) (\$0.6 million gain), the sale of certain assets by PSINet Europe, one of the holdings of one of Ampal's investee companies, Telecom Partners (TP) (\$0.4 million gain) and the sale of certain assets by FIMI (\$0.2 million gain). These gains were offset partially by a loss from the sale of Ophir Holdings Ltd. (Ophir) (\$1.0 million loss).

The Company recorded realized and unrealized gain from marketable securities in the amount of \$0.2 million in fiscal year ended December 31, 2007, compared to \$1.1 million in the same period in 2006.

The Company recorded realized gain of \$3.4 million from the sale of a ship by Chem-Tankers C.V. in fiscal year ended December 31, 2007, compared to \$2.2 million gain from the sale of a real estate in the same period in 2006.

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In the fiscal year ended December 31, 2007, the Company recorded \$0.5 million of losses from the impairment of its investment in Carmel and Clalcom Ltd. (\$0.1 million). In the same period in 2006, the Company recorded no such impairments.

In the fiscal year ended December 31, 2007, the Company recorded \$10.1 million of interest expense, compared to \$4.3 million for the same period in 2006. The increase in interest expense is primarily attributable to the notes issued to institutional investors in Israel, a loan payable at the amount \$60.7 million received from Israel Discount Bank Ltd. and the convertible promissory note (the Convertible Promissory Note) issued to Merhav, which were issued in November and December 2006, respectively. On September 20, 2007, Merhav exercised its option to convert the outstanding balance of \$20.8 million (which includes accrued interest of \$0.8 million) on the Convertible Promissory Note into 4,476,389 shares of Class A Stock of the Company.

In the fiscal year ended December 31, 2007, the Company recorded a \$3.1 million translation loss, as compared to a \$1.3 million translation gain for the same period in 2006. The increase in translation loss is related to a change in the valuation of the New Israeli Shekel as compared to the U.S. dollar.

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The management of the Company currently believes that inflation has not had a material impact on the Company's operations.

Result of Operations Analyzed by Segments

	2007	2006
	(U.S. dollars in thousands)	
Revenues:		
Chemicals	\$ 31,922	\$ -
Energy	-	-
Finance	4,867	4,203
Real Estate	-	2,423
Leisure-Time	2,531	6,317
Intercompany adjustments	-	(9)
	39,320	12,934
Equity in earning of affiliates	(1,523)	1,610
	\$ 37,797	\$ 14,544

In the fiscal year ended December 31, 2007, the Company recorded \$37.8 million in revenue which was comprised of \$31.9 million in the Chemicals segment, due to the acquisition of Gadot in December 2007, \$4.9 million in the Finance segment, \$2.5 million in the Leisure-Time segment and a \$1.5 million loss in equity, as compared to \$14.5 million for the same period in 2006 which was comprised of \$4.2 million in the Finance segment, \$2.4 million in the Real Estate segment, \$6.3 million in the Leisure-Time segment and a \$1.6 million gain in equity. The increase in the Finance segment revenue is primarily related to the increase in interest income offset by the decrease in realized and unrealized gains on marketable securities and the decrease in realized gain from investments relating to finance segment, which the Company recorded \$0.6 million in 2007 compared to \$1.2 million in the same period in 2006. The decrease in the Real Estate segment is related to the sale of Am-Hal, a wholly owned subsidiary. The decrease in the Leisure-Time segment is primarily related to the gain of \$4.2 million from the sale of CWI which was recorded in 2006.

	2007	2006
	(U.S. dollars in thousands)	
Expenses:		
Chemicals	\$ 27,788	\$ -

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	2007	2006
Energy	-	-
Finance	25,216	15,723
Real Estate	-	272
Leisure-Time	2,420	1,913
Total	\$ 55,424	\$ 17,908

In the fiscal year ended December 31, 2007, the Company recorded \$55.4 million in expenses which was comprised of \$27.8 million in the Chemicals segment, due to the acquisition of Gadot in December 2007, \$25.2 million in the Finance segment and \$2.4 million in the Leisure-Time segment, as compared to \$17.9 million expense for the same period in 2006 which was comprised of \$15.7 million in the Finance segment, \$0.3 million in the Real Estate segment and \$1.9 million in the Leisure-Time segment. The increase in expenses in the Finance segment is primarily attributable to the increase in interest expense relate to the notes issued to institutional investors in Israel, a loan payable at the amount \$60.7 million received from Israel Discount Bank Ltd. and the Convertible Promissory Note issued to Merhav, which were issued in November and December of 2006, respectively. On September 20, 2007, Merhav exercised its option to convert the outstanding balance of \$20.8 million (which includes accrued interest of \$0.8 million) on the Convertible Promissory Note into 4,476,389 shares of Class A Stock of the Company.

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SELECTED QUARTERLY FINANCIAL DATA

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(U.S. dollars in thousands, except per share data)				
Unaudited				
Fiscal Year Ended December 31, 2008				
Revenues	\$ 128,729	\$ 153,904	\$ 143,937	\$ 130,067
Net interest expense	3,777	8,998	16,864	6,982
Net (loss) income	(10,275)	(17,370)	(12,642)	23,576
Basic EPS:				
Earnings (Loss) per Class A share	(0.18)	(0.3)	(0.22)	0.41
Diluted EPS:				
Earnings (Loss) per Class A share	(0.18)	(0.3)	(0.22)	0.39
(U.S. dollars in thousands, except per share data)				
Unaudited				
Fiscal Year Ended December 31, 2007				
Revenues	\$ 1,089	\$ 684	\$ 872	\$ 35,152
Net interest expense	1,398	1,908	2,926	(64)
Income (loss) from continuing operations	(4,367)	(3,598)	(9,850)	4,237
Income (loss) from discontinued operations, net of tax	(682)	435	21,737	(146)

SELECTED QUARTERLY FINANCIAL DATA

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	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net (loss) income	(5,049)	(3,163)	11,887	4,091
Basic EPS:				
Loss from continuing operations	(0.10)	(0.07)	(0.19)	0.08
Discontinued operations	(0.01)	0.01	0.41	-
Earnings (Loss) per Class A share	(0.11)	0.06	0.22	0.08
Diluted EPS:				
Loss from continuing operations	(0.1)	(0.07)	(0.19)	0.08
Discontinued operations	(0.01)	0.01	0.41	-
Earnings (Loss) per Class A share	(0.11)	0.06	0.22	0.08

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

On December 31, 2008, cash, cash equivalents and marketable securities were \$121.6 million, as compared with \$66.7 million at December 31, 2007. The increase is attributable to the issuance of the Company's Series B debentures and partly offset by purchasing an additional interest in Gadot.

As of December 31, 2008, the Company had \$52.9 million of marketable securities as compared to \$22.5 million in 2007. The increase is attributable to the purchasing of marketable securities with part of the proceeds from the issuance of the Company's Series B debentures and due to consolidating Gadot for the first time in 2008.

The Company may also receive cash from operations and investing activities and amounts available under credit facilities, as described below. The Company believes that these sources are sufficient to fund the current requirements of operations, capital expenditures, investing activities and other financial commitments of the Company for the next 12 months. However, to the extent that contingencies and payment obligations described below and in other parts of this Report require the Company to make unanticipated payments, the Company would need use its cash. The Company may need to draw upon other sources of cash, which may include additional borrowing, refinancing of its existing indebtedness or liquidating other assets, the value of which may also decline.

In addition, Ampal's interest in Gadot has been pledged and cash equal to \$2.7 million has been placed as a compensating balance for various loans provided to the Company and would therefore be unavailable if the Company wished to pledge them in order to provide an additional source of cash.

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Cash flows from operating activities

Net cash used in operating activities totaled approximately \$1.0 million for the fiscal year ended December 31, 2008, as compared to approximately \$23.7 million used by operating activities at the same period in 2007. The decrease in cash used in operating activities is primarily attributable to (i) the \$2.1 million of net proceeds from the sale of marketable securities (\$2.2 million proceeds offset by \$0.1 million investment) as compared to \$5.8 million of net investment from the sale of marketable securities (\$23.8 million investment offset by \$18.0 million proceeds) in the same period of 2007, and (ii) the receipt of a \$4.6 million dividends from affiliates for the fiscal year ended December 31, 2008, as compared to approximately \$0.2 million at the same period in 2007.

Cash flows from investing activities

Net cash used in investing activities totaled approximately \$171.2 million for the fiscal year ended December 31, 2008, as compared to approximately \$149.7 million used in investing activities for the same period in 2007. The increase in net cash used in investment activities is primarily attributable to an increase in deposits of \$44.6 million, \$41.2 million for capital improvements, \$47.7 million for the purchase of marketable securities that are available for sale and \$34.9 million for decreased consideration from sale of investments. The increase in net cash was offset by a \$128.4 million decrease in investment amounts in our investee companies (Gadot, Bay Heart and GWE), \$12.7 million proceeds

from sale of available for sale securities and a \$6 million increase in the amounts returned from deposits.

Cash flows from financing activities

Net cash provided by financing activities was approximately \$195.6 million for the fiscal year ended December 31, 2008, as compared to approximately \$179.7 million of net cash provided by financing activities for the same period in 2007. The increase in net cash provided by financing activities is primarily attributable to \$166.9 million from the Series B Debentures issued in Israel, \$17.1 million increase in loans received (which were set off from \$28.0 million increase in loan repayment), \$95.4 million received from a partnership during 2007, \$18.0 million received from the exercise of options during 2007 and \$23.7 million for the repurchase of shares and debentures of the Company during 2008.

Investments

On December 31, 2008, the aggregate fair value of trading and available-for-sale securities were approximately \$52.9 million, as compared to \$22.4 million at December 31, 2007. The increase in 2008 is mainly attributable to the purchase of Gadot and to the tradable securities held by Gadot.

a) In 2008, the Company made the following investments:

1. On June 3, 2008, Ampal completed its acquisition of an additional 14.98% of the outstanding ordinary shares (14.71% on a fully diluted basis) of Gadot through its wholly owned subsidiary MAE. The total consideration was \$17.7 million. The consideration was financed with Ampal's own resources and with borrowings in the amount of \$11.4 million.

On August 12, 2008, Ampal completed its acquisition of an additional 20.6% of the outstanding ordinary shares and 66.76% of the outstanding convertible debentures of Gadot and now indirectly holds 100% of the outstanding ordinary shares (99.99% on a fully diluted basis) of Gadot through MAE. The total consideration was \$23.3 million. The consideration was financed with Ampal's own resources and with borrowings in the amount of \$15.4 million.

These transactions follow the acquisition by Ampal of a 65.5% controlling interest (63.66% on a fully diluted basis) in Gadot on December 3, 2007.

As result of these transactions, Gadot is now a wholly owned subsidiary of the Company and its shares and debentures have been delisted from the TASE.

2. Option Agreement for Sugarcane Ethanol Project in Colombia

On May 29, 2008, Ampal loaned Merhav \$10 million, in addition to the currently outstanding \$10 million that were loaned on December 25, 2007, to fund the Project in Colombia being developed by Merhav. The additional loan was made pursuant to the Promissory Note, by Merhav in favor of Ampal. The Promissory Note was given in connection with the Original Option Agreement, with Merhav providing Ampal with the Option to acquire up to a 35% equity interest in the Project. The loan will be convertible into all or a portion of the equity interest purchased pursuant to the Original Option Agreement.

On December 25, 2008, Ampal entered the Option Amendment to the Original Option Agreement. Under the Original Option Agreement, the Option expired on the earlier of December 25, 2008 or the Financing Date. The Option Amendment extends the expiration of the Option to the earlier of December 31, 2009 or the Financing Date.

The Option Amendment also provides that in determining the price to be paid by Ampal for shares pursuant to the option under the Valuation Model, the parties have agreed to review the discount rate set forth in the Valuation Model to determine whether the discount rate should be increased, provided, however, that the purchase price shall not exceed the amount Ampal would have paid without giving effect to the Option Amendment. The maximum purchase price for any interest in the Project purchased by Ampal pursuant to the option would be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the Amended Promissory Note referred to below, the lesser of (i) a price based on the Valuation Model as updated from time to time to reflect changes in project, financing and other similar costs as such updates are reviewed by Houlihan Lokey Howard & Zukin at the time of the Option's exercise or (ii) the lowest price paid by any unaffiliated third party for an interest in

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the Project, or (B) with respect to any portion of such interest in the Project being purchased in excess of the balance of the Amended Promissory Note, the lowest price paid by an unaffiliated third party for its interest in the Project, unless no unaffiliated third party has purchased an interest in the Project, in which case the purchase price will be based on the Valuation Model.

In consideration for Merhav entering into the Option Amendment, Ampal agreed to certain amendments to the Promissory Note reflected in the Amended Promissory Note, dated December 25, 2008. The Amended Promissory Note provides for (i) an increase in the annual interest rate from LIBOR plus 2.25% to LIBOR plus 3.25% and (ii) an extension of the maturity date of the Promissory Note to December 31, 2009. As a condition to amending and restating the Promissory Note, Ampal received a personal guaranty dated as of December 25, 2008, from Yosef A. Maiman personally guaranteeing the obligations of Merhav under the Amended Promissory Note.

The loan continues to be secured by Merhav's pledge to Ampal, pursuant to a Pledge Agreement dated December 25, 2007, between Merhav and Ampal, of all of the shares of Ampal's Class A Common Stock, par value \$1.00 per share, owned by Merhav.

Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholders group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transaction.

3. Additional investment of \$2.1 million in GWE.
 4. A loan to Bay Heart of \$8.6 million, for a shopping mall in Haifa, Israel.
 5. On September 22, 2008, Gadot purchased from Milchen Communications Ltd. ("Milchen") a segment of its business engaged in operating a sales agency in Israel representing well-known manufacturers, selling a wide range of products, including chemicals and polymers and other materials for the printing and press industry. Gadot purchased this segment of activity for approximately \$1.3 million, out of which approximately \$0.4 million were paid for material inventory and approximately \$0.9 million for goodwill.
- b) In 2008, Ampal made the following dispositions:
1. During 2008, the Company received proceeds in the total amount of \$0.2 million from the sales of certain investments by FIMI.
 2. On March 2008, the Company received \$0.3 million from the sale of certain assets by PSINet Europe, one of the holdings of TP.
 3. On August 7, 2008, the Company signed an agreement for the sale of its 50% holdings of Country Club Hod Hasharon Sport Center for a consideration of 1.9 million.
 4. During 2008, the Company received \$0.6 million from the sale of certain assets by Ophir Holdings Ltd.

Debt

Notes issued to institutional investors in Israel and other loans payable pursuant to bank borrowings are either in U.S. dollars, linked to the Consumer Price Index in Israel or in unlinked New Israel Shekels, with interest rates varying depending upon their linkage provision and mature between 2009-2019.

The Company finances its general operations and other financial commitments through bank loans from Bank Hapoalim, Union Bank of Israel and Israel Discount Bank Ltd. As of December 31, 2008, the outstanding indebtedness under these bank loans totaled \$379.7 million and the loans mature through 2009-2019.

On April 29, 2008, Ampal completed a public offering in Israel of NIS 577.8 million (approximately \$166.8 million) aggregate principal amount of Series B debentures due 2017. The debentures are linked to the Israeli consumer price index and carry an annual interest rate of 6.6%. The debentures rank pari passu with Ampal's unsecured indebtedness. The debentures will be repaid in five equal annual installments commencing on January 31, 2012, and the interest will be paid semi-annually. As of December 31, 2008, the outstanding debt under the debentures amounts to \$138.7 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. Ampal deposited

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an amount of \$44.6 million with Clal Finance Trusties 2007 Ltd. in accordance with a trust agreement dated April 6, 2008, to secure the first four years worth of payments of interest on the debentures. As of December 31, 2008, the outstanding amount of the deposit was \$35.8 million. The debt offering was made solely to certain non-U.S. institutional investors in accordance with Regulation S under the U.S. Securities Act of 1933, as amended. The notes have not been and will not be registered under the U.S. securities laws, or any state securities laws, and may not be offered or sold in the United States or to United States persons without registration unless an exemption from such registration is available.

On March 27, 2008, Midroog rated the Series B debentures as A2 and also raised the rating of Ampal's Series A debentures to A2. On September 15, 2008, Midroog reduced the rating on the Series A and Series B debentures to A3. For further information, see Significant Developments During 2008 East Mediterranean Gas Company.

Ampal funded the Gadot transaction with a combination of available cash and the proceeds of the Credit Facility, dated November 29, 2007, between MAE and the Lender, for approximately \$60.7 million, which amount was increased, on the same terms and conditions, on June 3, 2008 by approximately \$11.3 million in order to fund the second stage of the transaction and on September 23, 2008 by approximately \$15.4 million in order to fund the third stage of the transaction. The Credit Facility is divided into two equal loans of approximately \$43.7 million. The first loan is a revolving loan that has no principal payments and may be repaid in full or in part on December 31 of each year until 2019, when a single balloon payment will become due. The second loan also matures in 2019, has no principal payments for the first one and a half years, and shall thereafter be paid in equal installments over the remaining ten years of the term. Interest on both loans accrues at a floating rate equal to LIBOR plus a percentage spread and is payable on a current basis. Ampal has guaranteed all the obligations of MAE under the Credit Facility and Ampal's interest in Gadot has also been pledged to the Lender as a security for the Credit Facility. Yosef Maiman has agreed with the Lender to maintain ownership of a certain amount of the Company's Class A Common Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type.

As of December 31, 2008, the Company has a \$8.3 million loan with Union Bank of Israel that bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008 and various other loans with Union Bank of Israel in the aggregate amount of \$7.5 million bearing interest at rates between 4.7% and 5.25% to be repaid until 2009. The loan agreement contains financial and other covenants.

As of December 31, 2008, the Company has a \$18.0 million loan with Bank Hapoalim as part of a \$27.0 million dollar loan facility. The funds borrowed under the loan facility are due in nine annual installments commencing on December 31, 2007 and bear interest at an annual rate of LIBOR plus 2%. The related loan agreement contains financial and other covenants including an acceleration of payment upon the occurrence of certain changes in the ownership of the Company's Class A Stock. As of December 31, 2008, The Company is in compliance with its debt covenants after receiving a certain waiver from the bank valid through the end of 2009.

On November 20, 2006, the Company entered into a trust agreement with Hermetic Trust (1975) Ltd. pursuant to which the Company issued Series A debentures to institutional investors in Israel in the principal aggregate amount of NIS 250.0 million (approximately \$58.0 million) with an interest rate of 5.75%, which is linked to the Israeli consumer price index. The notes shall rank pari passu with our unsecured indebtedness. The notes will be repaid in five equal annual installments commencing on November 20, 2011, and the interest will be paid semi-annually. As of December 31, 2008, the outstanding debt under the notes amounts to \$69.0 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. The Company deposited an amount of \$10,207,000 with Hermetic Trust (1975) Ltd. to secure the first three years worth of payments of interest on the debentures. As of December 31, 2008, the outstanding amount of the deposit was \$3.8 million.

The Company has a short term loan from Bank Hapoalim in the amount of \$3.5 million; bearing interest of 5.8%, to be repaid by December 31, 2009.

Other long term borrowings in the amount of \$0.2 million are linked to the Consumer Price Index in Israel, mature between 2009 and 2010 and bear annual interest of 5.7%.

As of December 31, 2008, Gadot had \$112 thousand outstanding under its convertible debentures. Gadot's debentures were listed on the TASE in December 2003, are linked to the Consumer Price Index in Israel, bear annual interest at the rate of 6.5%, and are repayable at December 5, 2009. The debentures are convertible into ordinary shares of Gadot, each incremental amount of NIS 3.53 of outstanding debentures (linked to the Consumer Price Index in Israel) is convertible into one ordinary share of Gadot of NIS 0.1 par value, subject to adjustments.

As of December 31, 2008, Gadot had \$11.4 million outstanding under its other debentures. These debentures are not convertible into shares and are repayable in five equal annual installments on September 15, of each of the years 2008 through 2012. The unsettled balance of the principal of the debentures bears annual interest at the rate of 5.3%. The principal and interest of the debentures are linked to the Consumer Price Index in Israel and the interest is payable in semi-annual installments on March 15 and September 15 of each of the years 2006 through 2012.

As of December 31, 2008, Gadot, a wholly owned subsidiary of Ampal, has short term loans, including current maturities, payable in the amount of \$95.9 million and long term loans payable in the amount of \$62.2 million. The various short term loans payable are either unlinked or linked to the USD or Euro and bear interest at rates between 3% to 7%. The various long term loans payable are either unlinked or linked to the Consumer Price Index in Israel or linked to the USD or Euro and bear interest at rates between 4.4% to 11.38% (the 11.38% relates to a loan in the amount of \$34 thousand). The loans agreements contains financial and other covenants.

The weighted average interest rates and the balances of these short-term borrowings at December 31, 2008 and December 31, 2007 were 5.1% on \$157.2 million and 6.3% on \$136.6 million, respectively.

Contractual Obligations	Payments due by period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3-5 years	More than 5 years
Long-Term Debt	\$ 222,499	\$ -	\$ 156,744	\$ 20,977	\$ 44,778
Debtures	\$ 216,724	\$ -	\$ 19,885	\$ 86,044	\$ 110,795
Convertible Debtures	\$ -	\$ -	\$ -	\$ -	\$ -
Short-Term Debt	\$ 157,233	\$ 157,233	\$ -	\$ -	\$ -
Expected interest payment ⁽³⁾	\$ 107,718	\$ 25,159	\$ 36,764	\$ 26,588	\$ 19,207
Capital Call Obligation ⁽¹⁾	\$ 2,800	\$ 2,800	\$ -	\$ -	\$ -
Operating Lease Obligation ⁽²⁾	\$ 199,891	\$ 37,450	\$ 64,668	\$ 24,159	\$ 73,548
Capital Lease Obligation	\$ -	\$ -	\$ -	\$ -	\$ -
Vessels Purchase Obligations	\$ 64,774	\$ 37,415	\$ 27,359	\$ -	\$ -
Other Long-Term Liabilities Reflected on the Company's Balance Sheet Under GAAP					
Total	\$ 971,573	\$ 260,056	\$ 305,420	\$ 157,768	\$ 248,328

(1) See Note 20(i) to Ampal's consolidated financial statements included in this Report for the fiscal year ended December 31, 2008.

(2) See Note 20 to Ampal's consolidated financial statements included in this Report for the fiscal year ended December 31, 2008.

(3) In calculating estimated interest payments on outstanding debt obligations, the Company assumed an exchange rate as at December 31, 2008 of NIS 3.802 to 1 U.S. dollar.

As of December 31, 2008, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$67.4 million. This includes:

- \$8.1 million guarantee on indebtedness incurred by Bay Heart in connection with the development of its property. Bay Heart recorded losses in 2008. There can be no guarantee that Bay Heart will become profitable or that it will generate sufficient cash to repay its outstanding indebtedness without relying on the Company's guarantee.
- \$1.1 million guarantee to Galha as described in Item 3 of this Report.
- \$58.2 million guarantees issued by Gadot for outstanding loans.

Off-Balance Sheet Arrangements

Other than the foreign currency contracts specified below, the Company has no off-balance sheet arrangements.

Foreign Currency Contracts

The Company's derivative financial instruments consist of foreign currency forward exchange contracts to purchase or sell U.S. dollars. These contracts are utilized by the Company, from time to time, to manage risk exposure to movements in foreign exchange rates. None of these

contracts have been designated as hedging instruments. These contracts are recognized as assets or liabilities on the balance sheet at their fair value, which is the estimated amount at which they could be settled, based on market prices or dealer quotes, where available, or based on pricing models. Changes in fair value are recognized currently in earnings.

As of December 31, 2008, the Company had open foreign currency forward exchange contracts to purchase U.S. dollars and sell Euros in the amount of \$1.6 million, to purchase Euro and sell U.S. dollars in the amount of \$2.2 million, to purchase U.S. dollars and sell NIS in the amount of \$5.0 million and to purchase NIS and sell U.S. dollars in the amount of \$5.0 million.

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On May 15, 2008, the Company entered into a SWAP agreement with respect to its Series B debentures, in the principal amount of \$165.7 million, due 2016. As a result of these agreements the Company is currently paying an effective interest rate of LIBOR plus 5.12% on \$43.9 million of these debentures, as compared to the original 6.6% fixed rate which is linked to the Israeli consumer price index.

As of December 31, 2008, the value of the currency SWAP resulted in a \$4.2 million decrease in other assets and a corresponding increase in interest expense.

CHANGES IN SHAREHOLDERS EQUITY

During the fourth quarter of the fiscal year ended December 31, 2008, the Company repurchased 1,366,415 class A stocks at the average price of \$0.787 per share which was recorded as treasury stocks. The repurchases were pursuant to the stock repurchase program which was approved on Ampal's Board of Directors, effective as of November 23, 2008.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS AND SENSITIVITY ANALYSIS

The Company is exposed to various market risks, including changes in interest rates, foreign currency exchange rates and equity price changes. The following analysis presents the hypothetical loss in earnings, cash flows and fair values of the financial instruments which were held by the Company at December 31, 2008, and are sensitive to the above market risks.

During the fiscal year ended December 31, 2008, there have been no material changes in the market risk exposures facing the Company as compared to those the Company faced in the fiscal year ended December 31, 2007, other than exposure to the Euro exchange rate due to the Company's acquisition of Gadot and the consumer price index due to the issuance of Series B debentures.

Interest Rate Risks

At December 31, 2008, the Company had financial assets totaling \$113.1 million and financial liabilities totaling \$596.6 million. For fixed rate financial instruments, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for variable rate financial instruments, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 2008, the Company did not have fixed rate financial assets and had variable rate financial assets of \$113.1 million. A ten percent decrease in interest rates would not increase the unrealized fair value of the fixed rate assets.

At December 31, 2008, the Company had fixed rate debt of \$337.6 million and variable rate debt of \$259.0 million. A ten percent decrease in interest rates would increase the unrealized fair value of the financial debts in the form of the fixed rate debt by approximately \$3.9 million.

The net decrease in earnings and cash flow for the next year resulting from a ten percent interest rate increase would be approximately \$1.4 million, holding other variables constant.

Foreign Currency Exchange Rate Sensitivity Analysis

The Company's exchange rate exposure on its financial instruments results from its investments and ongoing operations. As of December 31, 2008, the Company had open foreign currency forward exchange contracts to purchase U.S. dollars and sell Euros in the amount of \$1.6 million, to purchase Euro and sell U.S. dollars in the amount of \$2.2 million, to purchase U.S. dollars and sell NIS in the amount of \$5.0 million and to purchase NIS and sell U.S. dollars in the amount of \$5.0 million. Holding other variables constant, if there were a ten percent devaluation of the foreign currency, the Company's cumulative translation loss reflected in the Company's accumulated other comprehensive loss would increase by \$2.6 million, and regarding the statements of operations a ten percent devaluation of the U.S. Dollar exchange rate would be reflected in a net increase in earnings and cash flow would be \$27.2 million, and a ten percent devaluation of the Euro exchange rate would be reflected in a net increase in earnings and cash flow would be \$1.3 million.

Equity Price Risk

The Company's investments at December 31, 2008 included trading marketable securities which are recorded at a fair value of \$4.4 million, including a net unrealized gain of \$0.2 million, and \$48.5 million of trading securities that are classified as available for sale, including a net unrealized loss of \$2.1 million. Those securities have exposure to equity price risk. The estimated potential loss in fair value resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges is approximately \$5.3 million. There will be no impact on cash flow resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See pages 1 through 36 of the financial statements attached to this annual report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). The Company's management with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2008.

Attestation Report of the Registered Public Accounting Firm

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by Kessleman & Kesselman, a member of PricewaterhouseCoopers International Limited, an independent registered public accounting firm, as stated in their report attached hereto.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****MANAGEMENT**

The following table sets forth certain information regarding Ampal's directors and executive officers as of February 23, 2009:

Name	Position
Yosef A. Maiman	President, Chief Executive Officer, Chairman of the Board of Directors
Leo Malamud ⁽¹⁾	Director
Dr. Joseph Yerushalmi ⁽¹⁾	Director
Dr. Nimrod Novik	Director
Yehuda Karni ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	Independent Director
Eitan Haber	Director
Menahem Morag ⁽²⁾⁽³⁾⁽⁴⁾	Independent Director
Joseph Geva	Director
Erez I. Meltzer	Director
Daniel Vaknin ⁽²⁾⁽³⁾⁽⁴⁾	Independent Director
Irit Eluz	CFO, Senior Vice President - Finance and Treasurer
Yoram Firon	Vice President-Investments and Corporate Affairs and Secretary
Amit Mantsur	Vice President-Investments
Zahi Ben-Atav	Vice President - Accounting and Controller

The numbers listed below, which follow the names of some of the foregoing directors, designate committee membership:

- (1) Member of the Executive Committee of the Board which meets as necessary between regularly scheduled Board meetings and, consistent with certain statutory limitations, exercises all the authority of the Board.

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- (2) Member of the Audit Committee of the Board which reviews functions of the outside auditors, auditors' fees and related matters. Mr. Karni is the Chairman of the Audit Committee of the Board.
- (3) Member of the Stock Option and Compensation Committee of the Board.
- (4) Member of the Special Committee of the Board.

There are no family relationships between any of Ampal's directors and executive officers.

In 2008, the Board met 5 times and acted 9 times by written consent; the Executive Committee did not meet or act by written consent; and the Audit Committee met 5 times and did not act by written consent. The Stock Option and Compensation Committee met 1 time and acted once by written consent. The Special Committee met 5 times and did not act by written consent. All directors attended more than 75% of the aggregate of (1) the total number of Board meetings held during the period in 2008 for which such individual was a director and (2) the total number of meetings held by all committees of the Board on which such individual served in 2008 (during the period of such service). Each director of the Board is elected for a one year term and serves until his or her successor is duly elected and qualified.

The following sets forth the ages of all of the above-mentioned directors and executive officers, all positions and offices with Ampal or its subsidiaries held by each director and officer and principal occupations during the last five years.

YOSEF A. MAIMAN, 63, has been the Chairman of the Board of Ampal since April 25, 2002 and President and Chief Executive Officer of Ampal since October 1, 2006. Mr. Maiman has been President and Chief Executive Officer of Merhav, one of the largest international project development companies based in Israel, since its founding in 1975. Mr. Maiman is the Chairman of the Board of Directors of Gadot. Mr. Maiman is also the Chairman of the Board of Directors of Channel 10 Ltd. (Channel 10), a commercial television station in Israel, a director of Eltek, Ltd. (Eltek), a developer and manufacturer of printed circuit boards and Honorary Consul to Israel from Peru. Mr. Maiman is also a member of the Board of Trustees of the Tel Aviv University, Chairman of the Israeli Board of the Jaffee Center for Strategic Studies at Tel Aviv University, a member of the Board of Governors of Ben Gurion University, and the Chairman of the Board of Trustees of the International Policy Institute for Counter Terrorism.

LEO MALAMUD, 56, has been a director of Ampal since March 6, 2002. Since 1995, Mr. Malamud has served as Senior Vice President of Merhav. Mr. Malamud is also a director of Gadot, a wholly owned subsidiary of Ampal, Channel 10, 10 News Ltd. and Nana 10 Ltd.

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Dr. JOSEPH YERUSHALMI, 70, has been a director of Ampal since August 16, 2002. Since 1995, Dr. Yerushalmi has served as Senior Vice President - Head of Energy and Infrastructure Projects of Merhav M.N.F. Ltd. Dr. Yerushalmi is also a Director of Gadot, a wholly owned subsidiary of Ampal.

Dr. NIMROD NOVIK, 63, has been a director of Ampal since September 19, 2006. Since 1995, Dr. Novik has served as Senior Vice President of Merhav, responsible for Middle East projects (including the MIDOR petroleum refinery in Egypt and the EMG project for the export of Egyptian natural gas to Israel) as well as for corporate, media and government relations. Mr. Novik is also a Director of EMG and Channel 10 News Ltd. Mr. Novik is an advisor to the Israeli National Security Council as well as to several members of the Israeli cabinet, and a former Special Ambassador of the State of Israel as well as Chief Advisor on Foreign Policy to Israel's Prime Minister and Minister of Foreign Affairs.

YEHUDA KARNI, 79, has been a director of Ampal since August 16, 2002. From 1961 to 2000, Mr. Karni was a senior partner in the law firm of Firon Karni Sarov & Firon.

EITAN HABER, 69, has been a director of Ampal since August 16, 2002. From July 1992 to November 1995, Mr. Haber was the Head of Bureau for the former Prime Minister of Israel, Yitzhak Rabin. Since 2001, Mr. Haber has served as Chief Executive Officer of Kavim Ltd. Since 1996, Mr. Haber has served as President and Chief Executive Officer of Geopol Ltd. Mr. Haber is also a Director of Africa Israel Ltd. and of Israel Experience Co.

MENAHEM MORAG, 57, has been a director of Ampal since January 27, 2004. From 1996 to 1999, Mr. Morag was the Head of Finance and Budget at the Israeli Prime Minister's office in Tel Aviv. From 1999 to 2001, Mr. Morag was the Controller and Ombudsman at the Israeli Prime Minister's office in Tel Aviv. From 2001 to 2003, Mr. Morag was the Head of Human Resources Department at the Israeli Prime Minister's office in Tel Aviv. From 2003 to 2006, Mr. Morag served as the Head of the Council of the Pensioners Association of the Israeli Prime Minister's

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office in Tel Aviv. From 2004 to 2006, Mr. Morag was a Director of Palram Industries, and from 2005 to 2006, he was the Chief Executive Officer of Keren-Shemesh Foundation for the Encouragement of Young Entrepreneurs. Since 2006 Mr. Morag serves as a Deputy General Manager Head of Resources Division of Union Bank of Israel Ltd. and as a Director in several of the subsidiaries of Union Bank of Israel Ltd.

JOSEPH GEVA, 58, has been a director of Ampal since November 5, 2008. Since January 2001, Mr. Geva has been the Chief Executive Officer of Milchan Group Israel. Since 2005, Mr. Geva has served as a Director of Channel 10. Since 2007, Mr. Geva has been Co-Manager at a new energy project in Israel for producing electricity in Pumped Storage Station at the Gilboa Mountain in Israel.

EREZ I. MELTZER, 51, has been a director of Ampal since November 5, 2008. Since November 2008, Mr. Meltzer has served as Chief Executive Officer of Gadot, a wholly owned subsidiary of Ampal. Mr. Meltzer also serves as a Director and Executive Vice Chairman of Gadot. From 2006 to 2007, Mr. Meltzer was the Chief Executive Officer of Africa Israel Group. From 2002 to 2006, Mr. Meltzer was the President and Chief Executive Officer of Netafim Ltd. From 1999 to 2001, Mr. Meltzer was the President and Chief Executive Officer of CreoScitex. Mr. Meltzer served as a colonel in the Israeli Defense Forces Armored Corps. (reserves). Mr. Meltzer is the Chairman of the Lowenstein Hospital Friends Association since 1999, and the honorary chairman of the Israeli Chapter of YPO (the Young Presidents Organization).

DANIEL VAKNIN, 53, has been a director of Ampal since November 5, 2008. Since August 2007 Mr. Vaknin has served as Chief Executive Officer of Israel Financial Levers Ltd. From 2005 to 2007 Mr. Vaknin served as the Chief Executive Officer of Phoenix Investments and Finance Ltd. From 2004 to 2005 Mr. Vaknin served as the Vice Chief Executive Officer of I.D.B Development Company Ltd. Prior to that Mr. Vaknin was a Senior Partner at Kesselman & Kesselman CPA, a member firm of PricewaterhouseCoopers International Limited. Mr. Vaknin also serves as a Director in Macpell Industries Ltd., and its subsidiaries, and of SLS Sails Ltd.

IRIT ELUZ, 41, has been the Chief Financial Officer and Senior Vice President Finance and Treasurer since October 2004. From May 2002 to October 2004, Ms. Eluz was Chief Financial Officer and Vice President Finance and Treasurer. Since July 2006 Ms. Eluz serves as an Independent Director of Kamor Ltd. From January 2000 to April 2002, Ms. Eluz was the Associate Chief Financial Officer of Merhav M.N.F. Ltd. From June 1995 to December 1999, Ms. Eluz was the Chief Financial Officer of Kamor Group.

YORAM FIRON, 40, has been Secretary and Vice President Investments and Corporate Affairs since May 2002. From 1997 to 2002, Mr. Firon was a Vice President of Merhav M.N.F. Ltd. and a partner in the law firm of Firon Karni Sarov & Firon.

AMIT MANTSUR, 38, has been Vice President Investments since March 2003. From September 2000 to December 2002, Mr. Mantsur served as Strategy and Business Development Manager at Alrov Group. From February 1997 to September 2000, Mr. Mantsur was a projects manager at the Financial Advisory Services of KPMG Somekh Chaikin.

ZAHI BEN-ATAV, 35, has been Vice-President Accounting and Controller Since May 2008. From November 2005 to March 2008, Mr. Ben-Atav served as a controller at Celltick Technologies Ltd. From November 2003 to November 2005, Mr. Ben-Atav was a controller at ClearForest Ltd. From January 2000 to November 2003, Mr. Ben-Atav worked as a senior manager at the accounting firm of Kesselman & Kesselman CPA, a member firm of PricewaterhouseCoopers International Limited.

AUDIT COMMITTEE

The Company has an Audit Committee of the Board consisting of Messrs. Karni, Morag and Vaknin, each of whom is an independent director as defined under the rules of the National Association of Securities Dealers, Inc. and the rules promulgated by the Securities and Exchange Commission. Prior to Mr. Vaknin's appointment to the Board and Audit Committee on November 5, 2008, Mr. Haber served on the Audit committee. The Board has determined that Mr. Morag and Mr. Vaknin are each an audit committee financial expert for purposes of the rules promulgated by the Securities and Exchange Commission.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Ampal's executive officers and directors, and persons who own more than 10% of a registered class of Ampal's equity securities, to file with the Securities and Exchange Commission initial statements of beneficial ownership (Form 3), and statements of changes in beneficial ownership (Forms 4 and 5), of Class A Stock of Ampal. To the Company's knowledge, based solely on its review of the copies of such forms received by it, all filing requirements applicable to its executive officers, directors and greater than 10-percent stockholders were complied with as of February 23, 2009.

CODE OF ETHICS

The Company has adopted a code of ethics (as defined in the rules promulgated under the Securities Exchange Act of 1934) that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, or person performing similar functions. A copy of the Company's code of ethics is available on the Company's website at www.ampal.com (the Company's Website).

CODE OF CONDUCT

The Company has adopted a code of conduct that applies to all of the Company's employees, directors and officers. A copy of the code of conduct is available on the Company's Website.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Objectives of Compensation Program

This section contains a discussion of the material elements of compensation awarded to, earned by or paid to the principal executive and principal financial officers of the Company, and the other three most highly compensated executive officers of the Company. These individuals are referred to as the Named Executive Officers in this Report on Form 10-K.

The objectives of our compensation program are (i) to attract and retain qualified personnel in the Israeli marketplace, (ii) to provide incentives and rewards for their contributions to the Company, and (iii) to align their interests with the long-term interests of the Company's shareholders.

Our Named Executive Officers compensation has three primary components: salary, an annual cash incentive bonus and stock option awards. In addition, we provide our Named Executive Officers with benefits that are generally available to our salaried employees.

We determine the appropriate level for each compensation component based in part, but not exclusively, on competitive benchmarking consistent with a broad spectrum of companies in Israel and in the United States.

Due to the small size of our executive team and the need to tailor each Named Executive Officer's compensation package for retention and recruitment purposes, we have not adopted any formal policies or guidelines for allocating compensation between long term and currently payable compensation, between cash and non cash compensation or among different forms of compensation.

Responsibilities

The Compensation Committee is composed of independent directors as defined under the rules of NASDAQ and the SEC. The Compensation Committee does not operate pursuant to a written charter.

The Compensation Committee is responsible for (i) administering the Option Plans and determining the officers and key employees who are to be granted options under the Option Plans and the number of shares subject to such options and (ii) determining the annual base salary and non-equity based annual bonus for Mr. Maiman in his capacity as Chairman, President and Chief Executive Officer.

Mr. Maiman is responsible for (i) determining the annual base salary and non-equity based annual bonuses for all executive officers (other than the Chief Executive Officer) and for (ii) recommending to the Board directors compensation and benefit programs. Mr. Maiman also may attend and participate in meetings of the Compensation Committee.

No outside compensation consultant is engaged by the Company at this time, although the Company may elect to do so in the future.

Elements of Compensation

The material elements of the Company's executive compensation program for Named Executive Officers includes three primary components: salary, an annual cash incentive bonus and stock option awards. In addition, we provide our Named Executive Officers with benefits that are generally available to our salaried employees.

Base Salary

We set our salaries for our Named Executive Officers generally based on what we believe enables us to hire and retain individuals in the competitive environment in Israel and rewards individual performance and the contribution to our overall business goals. We also take into account the base salaries paid by similarly situated companies in Israel and in the United States with which we believe we generally compete for talent. There are no formal guidelines or formulas used by us to determine annual base salary for our Named Executive Officers, as annual salary determinations are made on a case by case basis from year to year to react to compensation market trends in Israel and to take into account the Named Executive Officer's performance. Additionally, stock price performance has not been a factor in determining annual compensation because the price of the Company's common stock is subject to a variety of factors outside our control. Our approach to annual base salary is designed to retain our Named Executive Officers so that they will continue to operate at high levels in the best interests of the Company.

Determinations for annual base salary for the fiscal year ended December 31, 2008, were made by the Compensation Committee regarding Mr. Maiman and by Mr. Maiman regarding other executive officers.

Annual Cash Incentive Bonus Compensation

The non-equity based annual bonus compensation is based on each Named Executive Officer's individual performance for the Company over the fiscal year, which is measured in terms of overall effort, performance and contribution to the Company. In 2008, we considered the performance of our Named Executive Officers with respect to certain material transactions and the amount of funds raised during the year and allocated an amount among the Named Executive Officers who were involved in those special efforts. We take into account the amount of annual base salary paid to each Named Executive Officers in determining such Named Executive Officers' non-equity based annual bonus compensation. Determinations for non-equity based annual bonus compensation for the fiscal year ended December 31, 2008 were made by Mr. Maiman.

Long-Term Equity Incentive Compensation

At this time, we do not award long-term equity incentive compensation to our Named Executive Officers on an annual basis, however we may elect to award this form of compensation in the future. Following the April 2002 acquisition by Y.M. Noy Investments Ltd. of a controlling interest in the Company, we awarded long-term equity incentive compensation in April 2002 to provide the new management team with incentives aligned with shareholder interests and in December 2004, in recognition of the Named Executive Officers' assistance to a Special Committee of the Board of Directors that had been appointed to consider alternatives available to the Company to maximize shareholder value. In December 2006, the Stock Option Committee granted Mr. Maiman an option to acquire 250,000 shares of our Class A Stock for his service as Chairman of the Board. The amount of this award was consistent with the amount of the option grant previously awarded to Mr. Maiman in August 2002, which became fully vested in August 2006.

On December 8, 2008, the Compensation Committee and the Board of Directors approved the repricing of outstanding options to purchase, in the aggregate, 2,270,000 shares of Ampal's Class A Stock, which were previously granted to ten of the Company's current employees, executive officers and directors pursuant to the 2000 Plan, including the Named Executive Officers (except for Mr. Gilboa who held no options). See "Stock Option Plans" below.

While our current policy is to award option grants to our executive officers and directors, the awards granted under the Option Plans may be in the form of options, restricted stock, dividend equivalent awards and/or stock appreciation rights. There are no formal guidelines or formulas used by us to determine equity compensation awards for our Named Executive Officers.

As stated above, the Compensation Committee is responsible for determining long-term equity incentive compensation in accordance with the Option Plans. Such determinations are made in consultation with Mr. Maiman and other executive officers from time to time.

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As is customary in Israel, we provide each Named Executive Officer with the use of a car, mobile phone, one meal per day, telephone expenses, economic newspapers, and stipends for traveling out of the country from time to time. The value of the specific car an employee receives varies according to his or her pay grade within the Company.

Additionally, consistent with practice in the Israeli marketplace, the Company reimburses the Named Executive Officers for a portion of the taxes associated with the use of the car and mobile phone.

Severance and Change of Control Benefits

Israeli labor laws and agreements require payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances, including retirement. The Company's severance pay is calculated based upon length of service and the latest monthly base salary (one month's salary for each year worked). Severance pay is paid from a fund into which the Company contributes up to 8 1/3% of the employee's base salary each month, in accordance with Israeli law and the customary practice in Israel. The Company's liability for severance pay pursuant to Israeli law is partly offset by insurance policies, where the Named Executive Officers are the beneficiaries of such insurance policies.

In addition to the above the Named Executive Officers are eligible to participate in a Pension Plan in which both the employee and the Company contribute up to 5% of the employee's base salary each month. The Named Executive Officers are eligible to receive the fund upon termination of employment, including retirement.

In addition to the above benefits, each of the employment agreements of certain executive officers provide that such executive officer shall receive an additional payment of six months' salary (together with all related benefits for the six month period including social benefits, use of a vehicle, mobile telephone and any other rights accompanying the executive officer's employment by the Company) in the event (i) of a change of control of Ampal and (ii) such executive officer's employment is terminated within six months from the date of the change of control of Ampal. These arrangements were designed to provide these key employees with an additional benefit consistent with Israeli practice for employees in comparable positions.

Pursuant to the terms of the employment agreements of each of the certain executive officers, following the termination of employment, such executive officers shall not be involved, directly or indirectly, with any business or entity that is in the field of the Company's activities and/or is in direct competition in the field of the Company's activities for a period of six months following the termination of employment. Furthermore, during the term of employment at the Company and for a period of twenty four months following the termination of employment, each of these executive officers shall abstain from providing services in any manner whatsoever, including consulting services, either paid or not paid, to any business or occupation in which the Company was involved.

Education Fund

The Named Executive Officers are eligible to participate in an education fund in which both the employee and the Company contribute up to 2.5% and 7.5% respectively of the employee's base salary each month. The Named Executive Officers are eligible to receive the fund upon termination of employment, including retirement. The education fund contribution, which is customary in Israel, can be used by the Named Executive Officers at any time for professional education and every 6 years for any other purpose. As is customary in Israel, the Company also reimburses the Named Executive Officers for taxes associated with Company contributions to this fund beyond the maximum contributed amount allowed according to the Israel Tax law.

Vacation Provision and Recreation Pay

The Named Executive Officers are eligible to take one month vacation per year. Additionally, pursuant to Israeli employment laws, each Named Executive Officer is entitled to a certain amount of recreation pay to be used for any other purpose. Each Named Executive Officer is entitled to receive 13 days of recreation pay, which amounts to approximately \$1,690 on an annual basis.

Stock Ownership and Retention Guidelines

The Company does not have any stock ownership or retention guidelines or policies.

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**Summary Compensation Table
For Fiscal Year Ended December 31, 2008**

The following table sets forth all of the compensation awards to our Named Executive Officers for the year ended December 31, 2008.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards (10)	All Other Compensation (7)	Total (8)
		\$	\$	\$	\$	\$	\$
Yosef A. Maiman (1) (9)							
Chairman of the Board, President and CEO	2008	1,028,812	979,484	-	269,211	242,985	2,386,859
	2007	890,344	1,092,044	-	147,903	24,272	2,154,563
	2006	632,144	984,627	-	68,947	30,605 ⁽¹¹⁾	1,716,323
Irit Eluz (2) (8)							
CFO - SVP Finance & Treasurer	2008	342,937	824,829	-	221,140	156,107	1,434,299
	2007	304,989	832,033	-	132,510	105,368	1,374,900
	2006	263,848	673,692	-	152,664	152,928	1,243,133
Yoram Firon (3) (8)							
Secretary, Vice President Investments	2008	239,348	77,328	-	154,468	122,947	514,554
	2007	227,470	182,007	-	89,918	86,153	585,548
	2006	206,194	173,964	-	107,504	80,235	567,897
Amit Mantsur (4)							
Vice President Investments	2008	170,963	61,862	-	46,253	89,762	328,502
	2007	155,486	62,402	-	35,396	55,236	308,521
	2006	141,538	49,704	-	37,969	50,902	280,114
Ofer Gilboa (5)							
Vice President Investments	2008	188,059	-	-	-	98,005	286,064
Erez I. Meltzer (6)							
Vice Chairman and CEO of Gadot	2008	189,769	-	-	1,790 ⁽¹²⁾	2,000 ⁽¹²⁾	193,559

(1) Mr. Maiman has been employed by Ampal since April 25, 2002 as Chairman of the Board; On September 19, 2006 Mr. Maiman was appointed as the President and CEO of Ampal.

(2) Ms. Eluz has been employed by Ampal since April 25, 2002.

(3) Mr. Firon has been employed by Ampal since April 25, 2002.

(4) Mr. Mantsur has been employed by Ampal since February 2, 2003.

(5) Mr. Gilboa has been employed by Ampal from December 27, 2007 until January 31, 2009.

(6) Mr. Meltzer has been employed by Gadot since November 1, 2008.

(7) Comprised of Ampal (Israel) contribution pursuant to: (i) Ampal (Israel) pension plan and (ii) Ampal (Israel) education fund and (iii) use of car and (iv) use of mobile and (v) final account settlement and (vi) redemption of vacation provision and (vii) reimbursed for the payment of taxes.

(8) Eligible to receive an additional payment of up to six months salary (i) in the event of a change of control of the Company and (ii) such executive officer's employment is terminated within six months from the date of the change of control of the Company.

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(9) All cash compensation is paid in New Israeli Shekels. The amounts in the table are converted from the New Israeli Shekel to U.S. dollars based on the exchange rate of 3.8020 for 2008, which represents the exchange rate as of December 31, 2008, of 4.0355 for 2007, which represents the exchange rate as of December 31, 2007 and of 4.2250 for 2006, which represents the exchange rate as of December 31, 2006.

(10) Represents the compensation cost in 2008 in accordance with SFAS No. 123R for stock options, which includes amounts from awards granted in and prior to 2008.

(11) Of such amount, for services as director, \$22,000 was paid in cash.

(12) For services as director. See also the footnotes to the Director Compensation Table below.

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Outstanding Equity Awards For Fiscal Year Ended December 31, 2008

Option Awards

Name	Number of Securities		Option Exercise Price (\$)	Option Expiration Date
	Underlying Unexercised Options (Exercisable) (1)	Number of Securities Underlying Unexercised Options (Unexercisable)		
Yosef A. Maiman	390,625 ⁽²⁾	190,375	1.17	December 7, 2018
Irit Eluz	358,500 ⁽³⁾	-	1.17	December 7, 2018
Yoram Firon	258,500 ⁽³⁾	-	1.17	December 7, 2018
Amit Mantsur	73,000 ⁽³⁾	-	1.17	December 7, 2018
Erez I. Meltzer	-	180,000	1.17	December 7, 2018
Ofer Gilboa	-	-	-	-

(1) The underlying securities reflect the repricing of Ampal's outstanding options to ten employees, which was approved by the Compensation Committee and the Board of Directors on December 8, 2008. For further information, see Stock Option Plans below.

(2) 359,375 shares were vested and exercisable on December 8, 2008. 140,625 shares shall vest and become exercisable, in installments of 15,625 shares, beginning on December 12, 2008 and thereafter on the 12th day of the month of each subsequent three-month period until and including December 12, 2010.

(3) All vested and exercisable as of December 8, 2008.

Compensation of Directors

Directors of Ampal (other than Mr. Maiman) receive \$2,000 per Board meeting attended. Directors of Ampal also receive the same amount for attendance at meetings of committees of the Board, provided that such committee meetings are on separate days and on a day other than the day of a regularly scheduled Board meeting.

For attending Special Committee, Audit Committee and Executive Committee meetings Mr. Karni, the Chairman of the Special and the Audit Committee, is entitled to \$40,000 per year. Each of Mr. Vaknin and Mr. Morag are entitled to \$30,000 per year, for attending Special Committee and Audit Committee meetings.

In connection with the formation of the Special Committee on October 28, 2004, the Company entered into an Indemnification and Compensation Agreement with each of Messrs. Karni, Vaknin and Morag. In consideration for serving as a member of the Special Committee, the Company has agreed pursuant to the terms of the Indemnification and Compensation Agreement, among other things, to indemnify and hold harmless each Director with respect to his service on, and any matter or transaction considered by, the Special Committee to the fullest extent authorized or permitted by law. A copy of the form of this Indemnification and Compensation Agreement is attached as Exhibit 10j to the

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Company's Annual Report on Form 10-K for the year ended December 31, 2004.

On December 8, 2008, Stock Option and Compensation Committee of the Board and the Board of Directors approved the grant, pursuant to the Company's 2000 Incentive Plan, to each of Erez I. Meltzer, Daniel Vaknin and Joseph Geva, of an option to purchase 180,000 shares of Class A Stock at an exercise price of \$1.17 per share, vesting in sixteen equal quarterly installments.

Director Compensation For Fiscal Year Ended December 31, 2008

Name	Fees Paid in Cash (\$)	Option ⁽¹⁾ Award (\$)	Total (\$)
Yehuda Karni	56,498	87,820	144,318
Jack Bigio	6,000	-	6,000
Menahem Morag	42,000	89,816	131,816
Eitan Haber	39,000	87,820	126,820
Leo Malamud	10,000	17,748	27,748
Dr. Yossi Yerushalmi	12,000	47,329	59,329
Dr. Nimrod Novik	12,000	106,490	118,490
Joseph Geva ⁽²⁾	4,000	1,790	5,790
Daniel Vaknin ⁽²⁾	7,000	1,790	8,790

(1) Represents the compensation cost in 2008 in accordance with SFAS 123(R) for stock options.

(2) In fiscal year 2008, Messrs. Meltzer, Vaknin and Geva were each granted an option to purchase 180,000 shares of our Class A Stock, each with a grant date fair value of \$1.17.

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The following table sets forth certain information regarding stock options granted to purchase our Class A Stock to our directors during the fiscal year ended December 31, 2008.

	2008
Joseph Geva ⁽¹⁾	180,000
Erez I. Meltzer ⁽¹⁾	180,000
Daniel Vaknin ⁽¹⁾	180,000

(1) Director since November 5, 2008.

Stock Option Plans

On February 15, 2000, the Compensation Committee approved an Incentive Plan (2000 Plan), under which the Company has reserved 4 million shares of Class A Stock, permitting the granting of options to all employees, officers and directors. The 2000 Plan was approved by the Board of Directors at a meeting held on March 27, 2000 and was approved by a majority of the Company's shareholders at the June 29, 2000 annual meeting of shareholders.

On December 8, 2008, the Compensation Committee and the Board of Directors approved the repricing of outstanding options to purchase, in the aggregate, 2,270,000 shares of Ampal's Class A Stock, which were previously granted to ten of the Company's current employees, executive officers and directors pursuant to the 2000 Plan. The outstanding options had been originally issued with exercise prices ranging from \$3.12 to \$5.35 per share, which represented the then current market prices of Class A Stock on the dates of the original grants. The repricing was effected by canceling the outstanding options, and granting to each holder of cancelled outstanding options a new option, with a ten year term, to purchase the total number of shares of Class A Stock underlying such cancelled outstanding options, at an exercise price equal to \$1.17 per

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share, the closing price of Class A Stock on NASDAQ on December 5, 2008, the most recent closing price prior to the approval by the board and the committee. The repriced options maintain the vesting schedule of the cancelled outstanding options.

The 2000 Plan remains in effect for a period of ten years from the date of the repricing. As of December 31, 2008, 2,921,000 options of the 2000 Plan are outstanding.

The options granted under the 2000 Plan may be either incentive stock options, at an exercise price to be determined by the Compensation Committee but not less than 100% of the fair market value of the underlying options on the date of grant, or non-incentive stock options, at an exercise price to be determined by the Compensation Committee. The Compensation Committee may also grant, at its discretion, restricted stock, dividend equivalent awards, which entitle the recipient to receive dividends in the form of Class A Stock, cash or a combination of both and stock appreciation rights, which permit the recipient to receive an amount in the form of Class A Stock, cash or a combination of both, equal to the number of shares of Class A Stock with respect to which the rights are exercised multiplied by the excess of the fair market value of the Class A Stock on the exercise date over the exercise price. The options granted under the 2000 Plan were granted either at market value or above.

Under the 2000 Plan, all granted but unvested options become immediately exercisable upon the occurrence of a change in control of the Company.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of Compensation Committee are Mr. Yehuda Karni, Mr. Daniel Vaknin and Mr. Menahem Morag, none of whom is an officer or employee or former officer or employee of the Company. During 2008, no executive officer of the Company served on the compensation committee or the Board of Directors of another entity whose executive officer(s) served on the Company's Compensation Committee for the Board of Directors.

Effective as of September 19, 2006, the Board determined that Mr. Yosef A. Maiman, our President and CEO, shall be responsible for (i) determining the annual base salary and non-equity based annual bonuses for all executive officers (other than the Chief Executive Officer) and for (ii) recommending to the Board director compensation and benefit programs. The Stock Option and Compensation Committee shall continue to be responsible for (i) administering the Option Plans and determining the officers and key employees who are to be granted options under the Option Plans and the number of shares subject to such options and (ii) determining the annual base salary and non-equity based annual bonus for Mr. Maiman in his capacity as Chairman, President and Chief Executive Officer. Mr. Maiman also may attend and participate in meetings of the Stock Option Committee.

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COMPENSATION COMMITTEE REPORT

The Stock Option and Compensation Committee and Yosef A. Maiman have reviewed and discussed the Compensation Discussion and Analysis required by Regulation S-K, Item 402(b) with management. Based on the review and discussions referred to in the preceding sentence, the Stock Option and Compensation Committee and Yosef A. Maiman recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Report.

Yehuda Karni
Daniel Vaknin
Menahem Morag
Yosef A. Maiman

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information⁽¹⁾

Plan category	Number of securities to be issued upon exercise of outstanding	Weighted-average exercise price of outstanding options, warrants and	Number of securities remaining available for future issuance under equity compensation plans
---------------	--	--	--

	Equity Compensation Plan Information ⁽¹⁾		
	options, warrants and rights	rights	(excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,921,000	1.22	2,921,000 ⁽²⁾
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	2,921,000	1.22	2,921,000

(1) All information provided as of December 31, 2008.

(2) The number of securities remaining available for future issuance under 2000 Plan is 1,558,625.

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PRINCIPAL SHAREHOLDERS OF AMPAL

The following table sets forth information as of February 23, 2009, as to the holders known to Ampal who beneficially own more than 5% of the Class A Stock, the only outstanding series of voting securities of Ampal. As of February 23, 2009, there were 56,160,477 (not including treasury shares) shares of Class A Stock of Ampal outstanding.

Security Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner	Title of Class	Number of Shares and Nature of Beneficial Ownership	Percent of Outstanding Shares of Class A Stock
Di-Rapallo Holdings Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	9,650,132 ⁽¹⁾	17.18%
De-Majorca Holdings Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	18,850,153 ⁽²⁾	33.56%
Yosef A. Maiman of 33 Havazelet Hasharon St. Herzliya, Israel	Class A Stock	34,934,533 ⁽¹⁾⁽²⁾⁽³⁾	61.78%
Ohad Maiman of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	28,500,285 ⁽¹⁾⁽²⁾	50.75%
Noa Maiman, of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	28,500,285 ⁽¹⁾⁽²⁾	50.75%
Yoav Maiman, of 33 Havazelet Hasharon St.,			

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Name and Address of Beneficial Owner	Title of Class	Number of Shares and Nature of Beneficial Ownership	Percent of Outstanding Shares of Class A Stock
Herzliya, Israel	Class A Stock	28,500,285 ⁽¹⁾⁽²⁾	50.75%
Merhav M.N.F. Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	6,043,623 ⁽⁴⁾	10.76%
Clal Finance Ltd. and Clal Insurance Enterprises Holdings Ltd. 37 Menachem Begin St., Tel-Aviv 65220, Israel	Class A Stock	3,476,322 ⁽⁵⁾	6.19%

- (1) Consists of 9,650,132 shares of Class A Stock held directly by Di-Rapallo Yosef A. Maiman owns 100% of the economic shares and one-fourth of the voting shares of Di-Rapallo In addition, Mr. Maiman holds an option to acquire the remaining three quarters of the voting shares of Di-Rapallo (which are currently owned by Ohad Maiman, Noa Maiman and Yoav Maiman, the son, daughter and son, respectively, of Mr. Maiman).
- (2) Consists of 18,850,153 shares of Class A Stock held directly by De-Majorca Yosef A. Maiman owns 100% of the economic shares and one-fourth of the voting shares of De-Majorca In addition, Mr. Maiman holds an option to acquire the remaining three quarters of the voting shares of De-Majorca (which are currently owned by Ohad Maiman, Noa Maiman and Yoav Maiman, the son, daughter and son, respectively, of Mr. Maiman).
- (3) Includes 390,625 shares of Class A Stock underlying options which are currently exercisable or exercisable within 60 days of February 23, 2009, by Mr. Maiman and 6,043,623 shares of Class A Stock held directly by Merhav Yosef A. Maiman owns 100% of Merhav
- (4) Yosef A. Maiman owns 100% of Merhav

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- (5) Consists of 34,996 shares of Class A Stock beneficially owned by Clal Finance Ltd. (Clal Finance), none of which are held for its own account; and 3,441,326 shares of Class A Stock beneficially owned by Clal Insurance Enterprises Holdings Ltd. (Clal), of which (i) 2,921,919 shares of Class A Stock are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Clal, each of which subsidiaries operates under independent management and makes independent voting and investment decisions, (ii) 232 shares of Class A Stock are held by unaffiliated third-party client accounts managed by Clal Finance Batucha Investment Management Ltd. (CFB) as portfolio managers, each of which subsidiaries operates under independent management and makes investment decisions independent of Clal and has no voting power in such client accounts, and (iii) 554,171 shares of Class A Stock are beneficially held for its own account.

Clal Finance is a majority owned subsidiary of Clal. Through Clal Finance's wholly owned subsidiary, CFB, Clal may be deemed to beneficially own 232 shares of Class A Stock (the CFB Shares). Clal may be deemed to beneficially own an aggregate of 3,441,326 shares of Class A Stock (the Clal Shares). The CFB Shares are included in the Clal Shares. Clal is a majority owned subsidiary of IDB Development Corporation Ltd., an Israeli public corporation (IDB Development). By reason of IDB Development's control of Clal, IDB Development may be deemed to be the beneficial owner of, and to share the power to vote and dispose of, the shares of Class A Stock owned beneficially by Clal. IDB Development is a majority owned subsidiary of IDB Holding Corporation Ltd., an Israeli public corporation (IDB Holding). By reason of IDB Holding's control (through IDB Development) of Clal, IDB Holding may be deemed beneficial owner of, and to share the power to vote and dispose of, the shares of Class A Stock owned beneficially by Clal. Mr. Nochi Dankner, Mrs. Shelly Bergman, Mrs. Ruth Manor and Mr. Avraham Livnat may, by reason of their interests in, and relationships among them with respect to, IDB Holding, be deemed to control the corporations referred to in this footnote. By reason of the control of IDB Holding by Nochi Dankner, Shelly Bergman, Ruth Manor and Avraham Livnat, and the relations among them, Nochi Dankner, Shelly Bergman, Ruth Manor and Avraham Livnat may each be deemed beneficial owner of, and to share the power to vote and dispose of, the shares of Class A Stock owned

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beneficially by Clal.

The information regarding the holdings of Clal Finance and Clal, and the beneficial ownership thereof, is based upon a Schedule 13G/A filed by Clal with the SEC on February 13, 2009.

Security Ownership of Management

The following table sets forth information as of February 23, 2009 as to each class of equity securities of Ampal or any of its subsidiaries beneficially owned by each director and named executive officer of Ampal listed in the Summary Compensation Table and by all directors and named executive officers of Ampal as a group. All ownership is direct unless otherwise noted. The table does not include directors or named executive officers who do not own any such shares:

Name	Number of Shares and Nature of Beneficial Ownership of Class A Stock	Percent of Outstanding Shares of Class A Stock
Yosef Maiman	34,934,533 ⁽¹⁾⁽²⁾	60.23%
Irit Eluz	358,500 ⁽²⁾	*
Yoram Firon	258,500 ⁽²⁾	*
Amit Mantsur	73,000 ⁽²⁾	*
Zahi Ben-Atav	2,500 ⁽²⁾	*
Leo Malamud	166,875 ⁽²⁾	*
Dr. Joseph Yerushalmi	145,000 ⁽²⁾	*
Dr. Nimrod Novik	101,250 ⁽²⁾	*
Eitan Haber	105,000 ⁽²⁾	*
Yehuda Karni	105,000 ⁽²⁾	*
Menahem Morag	105,000 ⁽²⁾	*
Joseph Geva	11,250 ⁽²⁾	*
Erez I. Meltzer	11,250 ⁽²⁾	*
Daniel Vaknin	11,250 ⁽²⁾	*
All Directors and Executive Officers as a Group	36,388,908	62.73%

* Represents less than 1% of the class of securities.

(1) Attributable to 9,650,132, 18,850,153 and 6,043,623 shares of Class A Stock held directly by Di-Rapallo Holdings Ltd., De-Majorca and Merhav, respectively. See Security Ownership of Certain Beneficial Owners. In addition, this represents 390,625 shares underlying options for Yosef Maiman which are presently exercisable or exercisable within 60 days of February 23, 2009.

(2) Represents shares underlying options which are presently exercisable or exercisable within 60 days of February 23, 2009.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

On May 29, 2008, Ampal loaned Merhav \$10.0 million in addition to the currently outstanding \$10.0 million that were loaned on December 25, 2007, to fund the the Project in Colombia being developed by Merhav. The additional loan was made pursuant to the Promissory Note, dated as of December 25, 2007, by Merhav in favor of Ampal. The Promissory Note was given in connection with the Original Option Agreement dated December 25, 2007, with Merhav providing Ampal with the Option to acquire up to a 35% equity interest in the Project. The loan will be convertible into all or a portion of the equity interest purchased pursuant to the Original Option Agreement.

On December 25, 2008, Ampal entered into the Option Amendment to the Original Option Agreement. Under the Original Option Agreement, the option expired on the earlier of December 25, 2008 or the Financing Date. The Option Amendment extends the expiration of the

option to the earlier of December 31, 2009 or the Financing Date.

The Option Amendment also provides that in determining the price to be paid by Ampal for shares pursuant to the option under the Valuation Model, the parties have agreed to review the discount rate set forth in the Valuation Model to determine whether the discount rate should be increased, provided, however, that the purchase price shall not exceed the amount Ampal would have paid without giving effect to the Option Amendment. The maximum purchase price for any interest in the Project purchased by Ampal pursuant to the option would be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the Amended Promissory Note referred to below, the lesser of (i) a price based on a currently agreed Valuation Model as updated from time to time to reflect changes in project, financing and other similar costs as such updates are reviewed by Houlihan Lokey Howard & Zukin at the time of the option's exercise or (ii) the lowest price paid by any unaffiliated third party for an interest in the Project, or (B) with respect to any portion of such interest in the Project being purchased in excess of the balance of the Amended Promissory Note, the lowest price paid by an unaffiliated third party for its interest in the Project, unless no unaffiliated third party has purchased an interest in the Project, in which case the purchase price will be based on the Valuation Model.

In consideration for Merhav entering into the Option Amendment, Ampal agreed to certain amendments to the Promissory Note reflected in the Amended Promissory Note, dated December 25, 2008. The Amended Promissory Note provides for (i) an increase in the annual interest rate from LIBOR plus 2.25% to LIBOR plus 3.25% and (ii) an extension of the maturity date of the Promissory Note to December 31, 2009. As a condition to amending and restating the Promissory Note, Ampal received a personal guaranty dated as of December 25, 2008, from Yosef A. Maiman personally guaranteeing the obligations of Merhav under the Amended Promissory Note.

The loan continues to be secured by Merhav's pledge to Ampal, pursuant to a Pledge Agreement dated December 25, 2007, between Merhav and Ampal, of all of the shares of Ampal's Class A Common Stock, par value \$1.00 per share, owned by Merhav.

Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholders group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transaction.

In connection with the offering of its Series B debentures, Ampal entered into a trust agreement (the "Agreement") with Clal Finance Trustees 2007 Ltd. (the "Trustee") which became effective on April 28, 2008, pursuant to which the Company issued its Series B debentures to investors in Israel. The Trustee is a member of a group of affiliated companies, controlled by and affiliated with IDB Holding Corporation Ltd. (collectively, the "IDB Group"), that owns approximately 5.43% of the Company's outstanding Class A stock as of the date of this annual report. In November 2007, Clal Electronics Industries Ltd. ("Clal Electronics"), also a member of the IDB Group, entered into a previously disclosed joint venture with the Company, through a wholly-owned subsidiary of the Company, that will focus on the new development and acquisition of controlling interests in wind energy projects outside of Israel. The joint venture is owned equally by Clal Electronics and the Company through its wholly-owned subsidiary. Clal Finance, also a member of the IDB Group, led distributors in the offering in Israel of the Series B debentures, and members of the IDB Group purchased a portion of the Series B debentures. A member of the IDB Group is acting as a market maker on the Tel Aviv Stock Exchange for the purchase and sale of the Company's Class A stock and Series A debentures.

Ampal entered into a management services agreement with Merhav, according to which Merhav provides Ampal and its subsidiaries with management, marketing, financial, development and other administrative services for an annual consideration of NIS 10 million (\$ 2.6 million).

Review and Approval of Transactions with Management and Others

Pursuant to its written charter and the marketplace rules of the NASDAQ Global Market, the Audit Committee must review with management and approve all transactions or courses of dealing with parties related to the Company. In determining whether to approve a related person transaction, the Audit Committee will consider a number of factors including whether the related person transaction is on terms and conditions no less favorable to us than may reasonably be expected in arm's-length transactions with unrelated parties. The Audit Committee has the authority to engage independent legal, financial and other advisors. A special committee of the Board of Directors composed of the Company's independent directors, who also constitute all of the members of the Company's Audit Committee, has reviewed and approved the terms of each of the transactions described above.

Director Independence

Because a group of shareholders (as defined under Rule 13d-5(b)(1) of the Securities Exchange Act of 1934, as amended) consisting of Yosef A. Maiman, Ohad Maiman, Noa Maiman, and Yoav Maiman, and the companies Merhav, De Majorca and Di-Rapallo beneficially owns more than 50% of the voting power in the Company, the Company is deemed to be a controlled company under the rules of the NASDAQ

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Global Market. As a result, we are exempt from the NASDAQ rules that require listed companies to have (i) a majority of independent directors on the Board of Directors, (ii) a compensation committee and nominating committee composed solely of independent directors, (iii) the compensation of executive officers determined by a majority of the independent directors or a compensation committee composed solely of independent directors and (iv) a majority of the independent directors or a nominating committee composed solely of independent directors elect or recommend director nominees for selection by the Board of Directors. The Company has an Audit Committee of the Board consisting of Messrs. Karni, Morag and Vaknin, each of whom is an independent director as defined under the rules of the National Association of Securities Dealers, Inc. and the rules promulgated by the Securities and Exchange Commission. Other than the members of the Audit Committee, there are no other independent directors that serve on the Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

AUDIT FEES. The fees of Kesselman & Kesselman (Kesselman) CPA (ISR) for professional services rendered for the audit of the Company s annual financial statements for the fiscal years ended December 31, 2008 and December 31, 2007 on Form 10-K and reviewing the financial statements included in the Company s quarterly reports on Form 10-Q were \$707,750 and \$477,000, respectively.

AUDIT-RELATED FEES. Kesselman s fees for audit related services for the fiscal years ended December 31, 2008 and December 31, 2007 were \$331,353 and \$44,000, respectively.

TAX FEES. Kesselman s tax fees for the fiscal years ended December 31, 2008 and December 31, 2007, were \$232,889 and \$53,665, respectively.

ALL OTHER FEES. Kesselman s fees for other services for the fiscal years ended December 31, 2008 and December 31, 2007, were \$0 and \$309,142, respectively.

All of the services provided to Ampal by our principal accounting firm described above under the captions **Audit Fees** , **Tax Fees** and **All Other Fees** were approved by Ampal s Audit Committee. The Audit Committee has determined that the rendering of professional services described above by Kesselman is compatible with maintaining the auditor s independence.

Audit Committee Pre-Approval Policies

The Company s Audit Committee Charter provides that the Audit Committee shall approve in advance all audit services and all non-audit services provided by the independent auditors based on policies and procedures developed by the Audit Committee from time to time. The Audit Committee will not approve any non-audit services prohibited by applicable SEC regulations or any services in connection with a transaction initially recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported by the Internal Revenue Code and related regulations.

Our Audit Committee requires that our independent auditor, in conjunction with our Chief Financial Officer, be responsible for seeking pre-approval for providing services to us and that any request for pre-approval must inform the Audit Committee about each service to be provided and must provide detail as to the particular service to be provided.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report:

**Page
Reference**

(1) Financial Statements and Supplementary Data

Ampal-American Israel Corporation and Subsidiaries

<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Consolidated Balance Sheets as of December 31, 2008 and 2007</u>	2
<u>Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006</u>	4
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006</u>	7
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2008, 2007 and 2006 (included as part of the Statements of Changes in Shareholders' Equity for the respective years)</u>	7
<u>Notes to Consolidated Financial Statements</u>	10

Supplementary Data:

Selected quarterly financial data for the years ended December 31, 2008 and 2007	33 of annual report
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(2) Financial Statement Schedules

- (i) Schedule of Representative Rates of Exchange between the U.S. dollar and New Israeli Shekel for three years ended December 31, 2008:

**Representative Rates of Exchange
Between the U.S. dollar and the New Israeli Shekel
For the Three Years Ended December 31, 2008**

The following table shows the amount of New Israeli Shekels equivalent to one U.S. dollar on the dates indicated (or the nearest date thereto, if the exchange rate was not publicized on that date):

	2008	2007	2006
March 31	3.5530	4.155	4.665
June 30	3.3520	4.249	4.440
September 30	3.4210	4.013	4.302
December 31	3.8020	3.846	4.225

- (ii) Consolidated financial statements filed pursuant to Rule 3-09 of Regulation S-X:

Bay Heart Ltd.

Report of Certified Public Accountants
Consolidated Balance Sheets as at December 31, 2006 and 2005
Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004
Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004
Notes to Financial Statements

Coral World International Ltd.

Report of Certified Public Accountants

Consolidated Balance Sheets as at December 31, 2006 and 2005

Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Financial Statements

(iii) Reports of Other Certified Public Accountants filed pursuant to Rule 2-05 of Regulation S-X:

Bay Heart Ltd.

Carmel Containers Systems Limited

Chemship B.V.

Finlog B.V.

Hod Hasharon Sport Center Ltd.

Hod Hasharon Sport Center (1992) Limited Partnership

Exhibit 2 Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession

None

Exhibit 3 Articles of Incorporation and By-Laws

- 3a. Amended and Restated Certificate of Incorporation of Ampal-American Israel Corporation, dated May 28, 1997. (Filed as Exhibit 3a. to Form 10-Q, for the quarter ended June 30, 1997 and incorporated herein by reference, File No. 0-5380).
- 3b. Certificate of Amendment of Certificate of Incorporation, dated July 18, 2006 (Filed as Exhibit 3.1 to Form 8-K, filed with the SEC on July 19, 2006, and incorporated herein by reference).
- 3c. Certificate of Amendment of Certificate of Incorporation, dated July 18, 2006 (Filed as Exhibit 3.1 to Form 8-K, filed with the SEC on July 19, 2006, and incorporated herein by reference).
- 3d. Certificate of Amendment of Certificate of Incorporation, dated February 7, 2007 (Filed as Exhibit 3.4 to Form S-3, filed with the SEC on February 28, 2007, and incorporated herein by reference).
- 3e. By-Laws of Ampal-American Israel Corporation as amended, dated February 14, 2002 (incorporated by reference to Exhibit 3b. of Ampal's Form 10-K filed on March 27, 2002).

Exhibit 4 Instruments Defining the Rights of Security Holders, Including Indentures

- 4a. Form of Indenture dated as of November 1, 1984. (Filed as Exhibit 4a. to Registration Statement No. 2-88582 and incorporated herein by reference).
- 4b. Form of Indenture dated as of May 1, 1986. (Filed as Exhibit 4a. to Pre-Effective Amendment No. 1 to Registration Statement No. 33-5578 and incorporated herein by reference).
- 4c. English translation of the original Hebrew language Trust Deed dated November 20, 2006 between Ampal-American Israel Corporation and Hermetic Trust (1975) Ltd. for debt offering. (Filed as Exhibit 4c to Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 000-00538).

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- 4d. English translation of the original Hebrew language Trust Deed dated April 6, 2008, between Ampal-American Israel Corporation and Clal Finance Trustees 2007 Ltd., as amended, for Series B debentures offering in Israel (Filed as Exhibit 4.a to Form 10-Q, filed with the SEC on May 7, 2008, and incorporated herein by reference).

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Exhibit 10 Material Contracts

- 10a. Agreement, dated March 22, 1993, between the Investment Company of Bank Leumi, Ltd., and Ophir Holdings Ltd., Mercazim Investments Ltd., Diur B.P. Ltd. and Mivnat Holdings Ltd. (Filed as Exhibit 10.4 to Pre-Effective Amendment No. 1 to Registration Statement No. 33-51023 and incorporated herein by reference).
- 10b. Agreement, dated March 30, 1994, between Poalim Investments Ltd., Ampal (Israel) Ltd. and Ampal Industries (Israel) Ltd. (Translation). (Filed as Exhibit 10l, to Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference, File No. 0-538).
- 10c. Loan Agreement, dated April 27, 1998, between Bank Hapoalim Ltd. and Ampal Communications Limited Partnership (Filed as Exhibit 10.1 to Report on Form 10-Q for the quarter ended June 30, 1998, File No. 0-538).
- 10d. Form of Loan Agreement between Ampal Communications Limited Partnership and Bank Leumi Le-Israel B.M. (Filed as Exhibit 10.2 to Report on Form 10-Q for the quarter ended June 30, 1998, File No. 0-538).
- 10e. Sale and Purchase Agreement, dated November 8, 2000, between Ampal Realty Corporation and Second 800 LLC. (Filed as Exhibit 10i to Form 10-K for the fiscal year ended December 31, 2002, File No. 000-00538).
- 10f. The Company's 2000 Incentive Plan (Filed as an exhibit to the Company's Proxy Statement for the 2000 Annual Meeting of Shareholders).*
- 10g. Amendment to the Company's 2000 Incentive Plan adopted by the Board of Directors on February 14, 2002. (Filed as Exhibit 10i to the report on Form 10-K filed on March 27, 2003). *
- 10h. Compensation and Indemnification Agreement, dated as of December 13, 2004, between Ampal-American Israel Corporation and each of Mr. Yehuda Karni, Mr. Eitan Haber and Mr. Menachem Morag. (Filed as Exhibit 10j to the report on Form 10-K filed on March 15, 2005).
- 10i. Stock Option Cancellation Agreement, dated as of November 30, 2004, between Ampal-American Israel Corporation and Dafna Sharir. (Filed as Exhibit 10k to the report on Form 10-K filed on March 15, 2005).
- 10j. Omnibus Agreement, dated as of December 1, 2005, between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd. (Filed as Exhibit 10l to the report on Form 10-K filed on March 29, 2006).
- 10k. Stock Purchase and Indemnification Agreement, dated as of August 30, 2005, by and among Motorola Israeli Ltd., Ampal Communications Limited Partnership and MIRS Communications Ltd. (Filed as Exhibit 99.1 of Form 8-K, filed with the SEC on October 3, 2005, and incorporated herein by reference).
- 10l. Form of Option Agreement pursuant to the 2000 Incentive Plan (Filed as Exhibit 99.1 of Form 8-K, filed with the SEC on October 11, 2005, and incorporated herein by reference). *
- 10m. Form of Option Agreement for December 12, 2006 grants pursuant to the 2000 Incentive Plan. (Filed as Exhibit 10o to Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 000-00538). *
- 10n. Stock Purchase Agreement between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd., dated August 1, 2006 (Filed as Exhibit 10 of Form 8-K, filed with the SEC on August 3, 2006, and incorporated herein by reference).
- 10o.

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Stock Purchase Agreement between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd., dated November 28, 2006 (Filed as Exhibit 10.1 to Form 8-K, filed with the SEC on December 1, 2006, and incorporated herein by reference).

- 10p. Agreement of Certain Shareholders between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd. dated August 1, 2006. (Filed as Exhibit 10r to Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 000-00538).
- 10q. Form of Convertible Promissory Note between Ampal-American Israel Corporation and Merhav M.N.F. Ltd. (Filed as Exhibit 10.2 to Form 8-K, filed with the SEC on December 1, 2006, and incorporated herein by reference).
- 10r. Form of Securities Purchase Agreement, dated as of November 28, 2006, between Ampal-American Israel Corporation and certain investors (Filed as Exhibit 10.1 of 8-K, filed with the SEC on January 3, 2007, and incorporated herein by reference).
- 10s. Form of Warrant Agreement, dated as of December 28, 2006, between Ampal-American Israel Corporation and certain investors (Filed as Exhibit 10.2 of 8-K, filed with the SEC on January 3, 2007, and incorporated herein by reference).
- 10t. Form of Registration Rights Agreement, dated as of December 28, 2006, between Ampal-American Israel Corporation and certain investors (Filed as Exhibit 10.3 of 8-K, filed with the SEC on January 3, 2007, and incorporated herein by reference).

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- 10u. Share Sale and Purchase Agreements dated May 22, 2006, between Ampal-American Israel Corporation and Red Sea Underwater Observatory Ltd. for the sale of Coral World International Ltd. shares and Ted Sea Marinland Holdings 1973 Ltd. (Filed as Exhibit 10w to Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 000-00538).
- 10v. English translation of the original Hebrew language Form of Employment Agreement for each of Yosef A. Maiman, Irit Eluz, Yoram Firon, Amit Mantsur and Zahi Ben-Atav. (Filed as Exhibit 10x to Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 000-00538). *
- 10w. English translation of the original Hebrew language Employment Agreement for Ofer Gilboa (incorporated by reference to Exhibit 10x. of Ampal's Form 10-K filed on April 2, 2007).*
- 10x. Understanding for the Repayment of a Foreign Currency Loan between Bank Hapoalim BM and Ampal (Israel) Ltd. dated April 26, 2007. (Filed as Exhibit 10.1 to Report on Form 10-Q, filed with the SEC on May 15, 2007).
- 10y. Letter of Understanding between Bank Hapoalim BM and Ampal Israel (Ltd), dated April 26, 2007. (Filed as Exhibit 10.2 to Report on Form 10-Q, filed with the SEC on May 15, 2007).
- 10z. Letter of Understanding between Bank Hapoalim BM and Ampal-American Israel Corporation, dated April 26, 2007 (Filed as Exhibit 10.3 to Report on Form 10-Q, filed with the SEC on May 15, 2007).
- 10aa. Agreement among Ampal Industries Inc., Phoenix Holdings Ltd. and Golden Meybar (2007) Ltd., dated July 10, 2007 (Filed as Exhibit 10.2 to Form 10-Q, filed with the SEC on August 8, 2007, and incorporated herein by reference).
- 10bb. Agreement between Merhav Ampal Energy Ltd. and Netherlands Industrial Chemical Enterprises B.V., dated November 20, 2007, to purchase a 65.5% controlling interest in Gadot Chemical Tankers and Terminals Ltd. (Filed as Exhibit 10ee to Report on Form 10-K for the fiscal year ended December 31, 2007, File No. 000-00538).
- 10cc. Credit Facility between Merhav Ampal Energy Ltd. and Israel Discount Bank Ltd., dated November 29, 2007, for the funding of the Gadot transaction (Filed as Exhibit 10ff to Report on Form 10-K for the fiscal year ended December 31, 2007, File No. 000-00538).
- 10dd. Option Agreement between the Company and Merhav M.N.F. Ltd., dated December 25, 2007, providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project in Colombia (Filed as Exhibit 10gg to Report on Form 10-K for the fiscal year ended December 31, 2007, File No. 000-00538).
- 10ee.

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Amended Option Agreement between the Company and Merhav M.N.F. Ltd., dated December 25, 2008, providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project in Colombia.

- 10ff. Promissory Note, dated as of December 25, 2007, by Merhav M.N.F. Ltd. in favor of Ampal (Filed as Exhibit 10hh to Report on Form 10-K for the fiscal year ended December 31, 2007, File No. 000-00538).
- 10gg. Amended and Restated Promissory Note, dated as of December 25, 2008, by Merhav M.N.F. Ltd. in favor of Ampal.
- 10hh. Pledge Agreement, dated December 25, 2007, between Merhav M.N.F. Ltd. and Ampal (Filed as Exhibit 10ii to Report on Form 10-K for the fiscal year ended December 31, 2007, File No. 000-00538).
- 10ii. Guaranty Agreement, dated December 25, 2008, between Yosef A. Maiman, Merhav M.N.F. Ltd. and Ampal.
- 10jj. Form of Stock Option Certificate pursuant to the 2000 Incentive Plan for Repricing of Options on December 8, 2008 (Filed as Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on December 12, 2008, and incorporated herein by reference).*
- 10kk. Form of Stock Option Certificate pursuant to the 2000 Incentive Plan for Options Granted on December 8, 2008 (Filed as Exhibit 10.2 to the Current Report on Form 8-K, filed with the SEC on December 12, 2008, and incorporated herein by reference).*

* Management contract, compensatory plan or arrangement.

Exhibit 11 Statement re Computation of Earnings Per Share

Exhibit 12 Statement re Computation of Ratios

Exhibit 21 Subsidiaries of the Registrant

Ampal Financial Services Ltd., an Israeli company

Ampal Development (Israel) Ltd., an Israeli company

Nir Ltd., an Israeli company (in voluntary liquidation)

Ampal Realty Corporation, a New York corporation

Ampal Communications, Inc., a Delaware corporation

Ampal Enterprises Ltd, an Israeli Company

Ampal Holdings (1991) Ltd., an Israeli company

Ampal Industries, Inc., a Delaware corporation

Ampal Industries (Israel) Ltd. an Israeli company (in voluntary liquidation)

Ampal International Ventures (2000) Ltd., an Israeli company

Ampal (Israel) Ltd., an Israeli company

Ampal Properties Ltd., an Israeli company

Ampal Communication LP, an Israeli limited partnership

Exhibit 21 Subsidiaries of the Registrant

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Ampal Communication Holdings Ltd., an Israeli company

Ampal Energy Ltd., an Israeli company

Merhav-Ampal Energy Ltd., an Israeli company

Ampal Fuels Ltd., an Israeli company

Country Club Kfar Saba Ltd., an Israeli company

Merhav Ampal Energy Limited Partnership, an Israeli limited partnership

Merhav Ampal I.I.F General Partner Ltd, an Israeli company

Gadot Chemicals Tankers & Terminals Ltd., an Israeli company

Gadot Chemicals Terminals (1985) Ltd., an Israeli company

Gadot Yam Chemical Shipping Ltd., an Israeli company

GCT Ltd., a USA company

Shelah Chemical Haulage Service Co. Ltd., an Israeli company

GCT Netherlands B.V., a Dutch company

Chemship B.V., a Dutch company

Gadot A.S.M Ltd., an Israeli company

Gadot Lab Supplies Ltd., an Israeli company

Euro Gama Properties Ltd., an Israeli company

GCT-EST B.V., a Dutch company

GCT Holding B.V., a Dutch company

Gadot Storage & Handling Limited Partnership, an Israeli limited partnership

Chemichlor (2005) Chemicals Marketing Ltd., an Israeli company

Bax holding B.V, a Dutch company

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Bax Chemicals B.V., a Dutch company

Bax Chemicals France S.A.R.L., a French company

Bax Chemicals Export Overseas B.V., a Dutch company

Chyma Bulk Chemicals Shipping S.A. Greece, a Greek company

Chyma Hellas S.A. Greece, a Greek company

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Finlog B.V. (Holding), a Dutch company

VLS Group Germany GmbH, a German company

Vopak Logistic Services Pernis B.V, a Dutch company

Vopak Logistic Services Belgium N.V., a Belgian company

VLS Dusseldorf GmbH, a German company

VLS Netherlands.B.V. , a Dutch company

VLS Moerdijk B.V., a Dutch company

Zurgadim Ltd.

Exhibit 23 Consents of Experts and Counsel:

23.1	Kesselman & Kesselman CPAs (Isr) A member of PricewaterhouseCoopers International Limited	E-23.1
23.2	Brightman Almagor & Co., Certified Public Accountants A member firm of Deloitte Touche Tohmatsu	E-23.2
23.3	Kost Forer Gabbay & Kasierer Member of Ernst & Young Global	E-23.3
23.4	Mazars Paardekooper Hoffman Accountants N.	E-23.4
23.5	Fahn, Kanne & Co. Certified Public Accountants (Isr.)	E-23.5
23.6	Mazars Paardekooper Hoffman Accountants N.V	E-23.6
23.7	KPMG Somekh Chaikin, Certified Public Accountants	E-23.7
23.8	KPMG Somekh Chaikin, Certified Public Accountants	E-23.8

Exhibit 31.1 Certification of Yosef A. Maiman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Irit Eluz pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Yosef A. Maiman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 5th day of March, 2009.

AMPAL-AMERICAN ISRAEL CORPORATION

By: /s/ YOSEF A. MAIMAN

SIGNATURES

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Yosef A. Maiman, Chief Executive
Officer and President (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 5, 2009.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
/s/ YOSEF A. MAIMAN Yosef A. Maiman	Chairman of the Board of Directors, President & CEO	March 5, 2009
/s/ LEO MALAMUD Leo Malamud	Director	March 5, 2009
/s/ DR. JOSEPH YERUSHALMI Dr. Joseph Yerushalmi	Director	March 5, 2009
/s/ DR. NIMROD NOVIK Dr. Nimrod Novik	Director	March 5, 2009
/s/ YEHUDA KARNI Yehuda Karni	Director	March 5, 2009
/s/ EITAN HABER Eitan Haber	Director	March 5, 2009
/s/ MENAHEM MORAG Menahem Morag	Director	March 5, 2009
/s/ JOSEPH GEVA Joseph Geva	Director	March 5, 2009
/s/ EREZ I. MELTZER Erez I. Meltzer	Director	March 5, 2009
/s/ DANIEL VAKNIN Daniel Vaknin	Director	March 5, 2009
/s/ IRIT ELUZ Irit Eluz	CFO, Senior Vice President - Finance and Treasurer (Principal Financial Officer)	March 5, 2009
/s/ ZAHY BEN-ATAV Zahi Ben-Atav	VP Accounting & Controller (Principal Accounting Officer)	March 5, 2009

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of
Ampal-American Israel Corporation

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows, changes in shareholders' equity present fairly, in all material respects, the financial position of Ampal-American Israel Corporation and subsidiaries (the "Company") at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 and 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9(A) of the 2008 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits which were an integrated audits in 2008 and 2007. We did not audit the financial statements of certain consolidated subsidiaries whose assets constitutes approximately 9.0% and 7.8% of the consolidated assets as of December 31, 2008 and 2007, respectively and whose revenues constitutes approximately 26.7% and 23.4% of the consolidated revenues as of December 31, 2008. We did not audit the financial statements of affiliated companies, the Company's interest in which, as reflected in the balance is of \$5,598 thousands and \$7,417 thousands as of December 31, 2008 and 2007, respectively and total share in equity income (loss) of \$ (\$2,429), (\$1,581) and \$1,620 for each of the three years in the period ended December 31, 2008. The financial statements of those consolidated subsidiaries and affiliated companies were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements expressed herein, insofar as it relates to the amounts included for those companies, is based solely on the report of the other auditors. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, in 2007 the Company changed the manner in which it accounts for income tax uncertainties and in 2006 the Company changed the manner in which it accounts for stock-based compensation and defined benefit pension and other postretirement plans.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Gadot Chemical Tankers and Terminals Ltd. from its assessment of internal control over financial reporting as of December 31, 2007 because it was acquired by the Company

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in a purchase business combination on December 3, 2007.

/s/ Kesselman & Kesselman Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers International Limited

Tel Aviv, Israel
March 5, 2009

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Assets As At	
	December 31, 2008	December 31, 2007
	(U.S. Dollars in thousands)	
Current assets:		
Cash and cash equivalents	\$ 68,682	\$ 44,267
Marketable securities (Note 2)	52,859	22,459
Accounts receivable (Net of allowance for doubtful amount \$0.3 and \$0)	111,231	106,665
Deposits, notes and loans receivable	13,834	13,737
Inventories	33,744	28,928
Other assets	19,510	23,164
	<u>299,860</u>	<u>239,220</u>
Non-current assets:		
Investments (Notes 2, 3 and 17):	375,612	371,791
Fixed assets, less accumulated depreciation of \$13,175 and \$3,697 (Note 7)	112,195	73,007
Deposits, notes and loans receivable	45,134	3,738
Deferred tax	22,819	11,637
Other assets	13,958	15,557
Goodwill (Note 6)	51,556	50,406
Intangible assets (Note 5)	14,783	9,433
	<u>636,057</u>	<u>535,569</u>
TOTAL ASSETS	<u>\$ 935,917</u>	<u>\$ 774,789</u>

The accompanying notes are an integral part of these consolidated financial statements.

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Liabilities and Shareholders' Equity As At	
	December 31, 2008	December 31, 2007
(U.S. Dollars in thousands, except amounts per share data)		
LIABILITIES		
<u>Current liabilities:</u>		
Notes and loans payable and current maturities (Note 8)	\$ 157,233	\$ 136,612
Accounts payable, accrued expenses and others (Note 10)	83,925	73,769
Total current liabilities	241,158	210,381
<u>Long term liabilities:</u>		
Notes and loans payable (Note 8)	222,499	187,405
Debentures (Note 9)	216,724	79,350
Deferred tax	5,965	3,275
Other long term liabilities (Note 10)	9,476	12,760
Total long term liabilities	454,664	282,790
Commitments and Contingencies (note 20)		
Total liabilities	695,822	493,171
Minority interests, net (Note 11)	869	23,206
SHAREHOLDERS' EQUITY (Note 12)		
Class A Stock \$1 par value; December 31, 2008 and 2007, respectively authorized 100,000,000 and 100,000,000 shares; issued 63,277,321 and 63,277,321 shares; outstanding 56,425,867 and 57,702,532 shares	63,277	63,277
Additional paid-in capital	191,263	189,899
Retained earnings	31,062	47,931
Accumulated other comprehensive loss	(17,876)	(14,821)
Treasury stock, at cost (December 31, 2008 and 2007, respectively 6,851,454 and 5,574,789)	(28,500)	(27,874)
Total shareholders' equity	239,226	258,412
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 935,917	\$ 774,789

The accompanying notes are an integral part of these consolidated financial statements.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended December 31,		
	2008	2007	2006
(U.S. Dollars in thousands, except per share data)			
REVENUES:			
Chemical income	\$ 534,934	\$ 28,546	\$ -
Real estate income	53	-	237
Equity in earnings (losses) of affiliates (Note 17)	(1,409)	(1,523)	1,610
Realized gains on investments (Note 3)	1,291	552	5,386
Realized and unrealized gains (losses) on marketable securities	(37)	173	1,126
Gain (loss) on sale of fixed assets (Note 3)	(6)	3,376	2,186
Interest income	4,522	3,954	1,479
Leisure-time income	2,770	2,530	2,167
Gain from redemption of debt, gain from change in ownership interest in a subsidiary and other income	14,519	189	353
Total revenues	556,637	37,797	14,544
EXPENSES:			
Chemical expense - cost of goods sold	497,575	26,220	-
Real estate expenses	50	-	272
Realized losses on investments (Note 3)	-	-	1,016
Loss from impairment of investments & real estate (Note 3)	-	575	-
Interest expense	41,143	10,127	4,328
Translation (gain) loss	(13,183)	3,086	(1,256)
Marketing expense	10,819	719	-
General and administrative and other	42,070	14,697	13,548
Total expenses	578,474	55,424	17,908
Loss before income taxes	(21,837)	(17,627)	(3,364)
Provision for income taxes (tax benefits) (Note 15)	(6,526)	(5,625)	2,585
Loss after income taxes (tax benefits)	(15,311)	(12,002)	(5,949)
Minority interests in profits of subsidiaries, net	(1,400)	(1,576)	(78)
Loss from continuing operations	(16,711)	(13,578)	(6,027)
Discontinued operation:			
Gain disposal, net of tax	-	21,761	-
Loss from operation of discontinued, net of tax	-	(417)	(1,060)
	-	21,344	(1,060)
Net income (loss) for the year	\$ (16,711)	\$ 7,766	\$ (7,087)

	Fiscal Year Ended December 31,		
Basic and diluted EPS (Note 14):			
Loss from continuing operations	(0.29)	(0.26)	(0.35)
Discontinued operations	-	0.42	(0.05)
	<u>\$ (0.29)</u>	<u>\$ 0.16</u>	<u>\$ (0.40)</u>
Shares used in calculation (in thousands)	<u>57,755</u>	<u>51,362</u>	<u>24,109</u>

The accompanying notes are an integral part of these consolidated financial statements.

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended December 31,		
	2008	2007	2006
	(U.S. Dollars in thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ (16,711)	\$ 7,766	\$ (7,087)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in losses (earnings) of affiliates	1,409	1,523	(1,610)
Realized and unrealized gains on investments, net	(1,254)	(725)	(5,496)
Gain on disposal of discontinued operations, net of tax	-	(21,761)	-
Gain on sale of fixed assets	6	(3,376)	(2,186)
Depreciation and amortization expense	12,931	1,367	1,967
Loss (gain) from amortization of tenants deposits	-	(677)	(1,747)
Impairment of investments	-	575	-
Non cash stock based compensation	1,365	782	720
Interest on convertible note to related party	-	815	-
Minority interests in profits (losses) of subsidiaries, net	1,400	1,427	(339)
Translation (gain) loss	(13,183)	2,967	(303)
Decrease (increase) in other assets	1,821	(17,387)	4,196
Increase (decrease) in accounts payable, accrued expenses and other	5,011	8,535	1,817
Investments made in trading securities	(81)	(23,803)	(49,994)
Proceeds from sale of trading securities	2,212	18,021	89,622
Gain from change in ownership interest in a subsidiary	(490)	-	-
Dividends received from affiliates	4,620	185	217
	<u>(944)</u>	<u>(23,766)</u>	<u>29,777</u>
Net cash (used in) provided by operating activities			
Cash flows from investing activities:			
Deposits, notes and loans receivable collected	9,686	3,643	-
Deposits, notes and loans receivable granted	(54,552)	(10,000)	(10,001)

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	Fiscal Year Ended December 31,		
Capital improvements	(42,408)	(1,178)	(1,430)
Investments made in available for sale shares	(47,744)	-	-
Investments made in Gadot, net of cash ⁽¹⁾	(41,266)	(78,153)	-
Investments made in EMG, affiliates and others	(13,699)	(105,099)	(123,031)
Proceeds from sale of available for sale share	12,654	-	-
Proceeds from disposal of investments:			
Affiliate and others	2,211	5,643	23,377
Proceeds from sale of Am-Hal ⁽²⁾ ,net	-	27,715	-
Proceeds from sale of fixed assets	3,948	7,694	3,800
Net cash used in investing activities	(171,170)	(149,735)	(107,285)

The accompanying notes are an integral part of these consolidated financial statements.

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**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Fiscal Year Ended December 31,		
	2008	2007	2006
	(U.S. Dollars in thousands)		
Cash flows from financing activities:			
Proceeds from notes and loans payable issued	\$ 120,158	\$ 103,131	\$ 6,015
Proceeds from long term loan from partnership minority	-	95,429	166
Notes and loans payable repaid	(65,005)	(37,000)	(11,210)
Proceeds from exercise of stock options and warrants	290	17,997	550
Debentures repaid and shares repurchased	(23,686)	-	-
Proceeds from issuance of shares, net	-	-	36,668
Proceeds from issuance of debentures	166,856	-	57,978
Deferred expense relating to issuance of debentures	(2,575)	-	(1,607)
Contribution (distribution) to partnership by minority interests	(407)	130	-
Dividends paid on preferred stock	-	-	(2,332)
Net cash provided by financing activities	195,631	179,687	86,228
Effect of exchange rate changes on cash and cash equivalents	897	1,348	3,699
Net increase in cash and cash equivalents	24,415	7,534	12,419
Cash and cash equivalents at beginning of year	44,267	36,733	24,314
Cash and cash equivalents at end of year	\$ 68,682	\$ 44,267	\$ 36,733
Supplemental Disclosure of Cash Flow Information Cash paid during the year:			
Interest	20,278	9,468	2,969

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	Fiscal Year Ended December 31,		
	2019	2018	2017
Income taxes paid	\$ 60	\$ 68	\$ 66
Supplemental Disclosure of Non-Cash investing and financing activity:			
Consideration for sale of an investment recorded as other assets	-	300	418
Consideration for sale of fixed assets recorded as other assets	-	-	800
Capital improvement recorded as account payable	-	-	868
Investment made in consideration for sale of shares capital	-	-	88,965
Investment made in investee by issuance of promissory note payable	-	-	20,000
Dividend from an equity investment recorded as payable accounts in previous period	-	-	5,060
Conversion of promissory note to class A stock	-	20,815	-
Issuance of shares for cash receipt on previous year	-	40,000	-
Conversion of preferred stock to class A stock	-	-	2,111

(1) Assets and liabilities purchased in Gadot - see Note 3

(2) Assets and liabilities disposed of in the sale of Am-Hal discontinued operation:

Current assets (net of cash and cash equivalents)	2,976
Fixed assets	69,781
Deferred tax	7,651
Debt	(15,295)
Deposits from tenants	(53,711)
Current liabilities	(2,974)
Minority interest	(2,526)
Difference from translation	52
Gain on disposal of Am-Hal	21,761
	<u>27,715</u>
Proceeds from sale of Am-Hal	<u>27,715</u>

The accompanying notes are an integral part of these consolidated financial statements.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. Dollars in thousands)

	Class A stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
	Number of shares*	Amount					
BALANCE AT JANUARY 1, 2008	63,277	63,277	189,899	47,931	(14,821)	(27,874)	258,412
CHANGES DURING 2008:							
Net Loss				(16,711)			(16,711)
Unrealized gain from marketable securities					(1,379)		(1,379)
Foreign currency translation adjustments					(1,676)		(1,676)
Total comprehensive income							(19,766)
Shares issued for investment made							-
Share based compensation expense			1,364				1,364
Purchase of 1,366,415 shares						(1,075)	(1,075)
Reissuance of 89,750 treasury shares for exercise of stock option				(158)		449	291
BALANCE AT DECEMBER 31, 2008	63,277	63,277	191,263	31,062	(17,876)	(28,500)	239,226

*In thousands

The accompanying notes are an integral part of these condensed consolidated financial statements.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. Dollars in thousands)

	Class A stock		Receipt on account of unallocated shares	Additional paid in capital	Warrants	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
	Number of shares*	Amount							
	46,328	46,328	40,000	126,945	308	40,165	(17,059)	(27,874)	208,813

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Class A stock

BALANCE AT JANUARY 1, 2007									
CHANGES DURING 2007:									
Net income						7,766			7,766
Adjustment upon adoption of FIN 48						(2,000)			(2,000)
Change in deferred tax asset relating to adoption of FIN 48						2,000			2,000
Unrealized gain from marketable securities							(43)		(43)
Foreign currency translation adjustments							710		710
Release of foreign currency translation adjustment relating to disposal of subsidiary and affiliates							1,571		1,571
Total comprehensive income									10,004
Shares issued for investment made	8,603	8,603	(40,000)	31,397					-
Shares issued upon conversion of convertible note	4,476	4,476		16,339					20,815
Share based compensation expense				783					783
Issuance of shares for exercise of Warrants	3,870	3,870	-	14,435	(308)				17,997
BALANCE AT DECEMBER 31, 2007	63,277	63,277	-	189,899	-	47,931	(14,821)	(27,874)	258,412

*In thousands

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. Dollars in thousands)

Number of shares	Class A stock		4% Preferred stock		6.5% Preferred stock		Receipt on account of unallocated shares	Additional paid in capital	Warrant	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount							

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	Class A stock		4% Preferred stock		6.5% Preferred stock									
BALANCE AT JANUARY 1, 2006	25,827	25,827	114	571	641	3,207	-	58,252	-	51,223	(19,518)	(30,693)	88,869	
CHANGES DURING 2006:														
Net loss										(7,087)			(7,087)	
Other comprehensive income (loss):														
Foreign currency translation adjustments											2,676		2,676	
Unrealized gain on marketable securities											109		109	
Sale of available for sale securities											(326)		(326)	
Total comprehensive loss														(4,628)
Conversion of 110,848 4% preferred stock and 518,887 6.5% preferred stock into Class A stock	2,111	2,111	(111)	(554)	(519)	(2,594)		1,037						-
Elimination of treasury stock			(3)	(17)	(122)	(613)				(1,307)	1,937			-
Shares issued for investment made	10,248	10,248					40,000	38,717						88,965
Shares issued and warrants in a private placement	8,142	8,142						28,219	308					36,669
Share based compensation expense								720						720
Reissuance of 176,250 treasury stock for exercise of stock options										(332)		882		550
Dividend - 4% Preferred stock - 6.5% Preferred stock										(285)				(285)
										(2,047)				(2,047)
BALANCE AT DECEMBER 31, 2006	46,328	46,328	-	-	-	-	40,000	126,945	308	40,165	(17,059)	(27,874)	208,813	

The accompanying notes are an integral part of these consolidated financial statements.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

(a) General

- (1) Ampal-American Israel Corporation is a New York corporation founded in 1942. The Company primarily acquires interests in businesses located in the State of Israel or that are Israel-related.

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- (2) As used in these financial statements, the term the Company refers to Ampal-American Israel Corporation (Ampal) and its consolidated subsidiaries. As to segment information see Note 17".
- (3) The consolidated financial statements are prepared in accordance with accounting principals generally accepted in the United States of America (US GAAP).
- (4) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Actual results could differ from those estimates.

(b) Consolidation

The consolidated financial statements include the accounts of Ampal and its controlled and majority owned entities. Inter-company transactions and balances are eliminated in consolidation.

(c) Translation of Financial Statement in Foreign Currencies

For those subsidiaries and affiliates whose functional currency is other than the US Dollar, assets and liabilities are translated using year-end rates of exchange. Revenues and expenses are translated at the average rates of exchange during the year. Translation differences of those foreign companies financial statements are reflected in the cumulative translation adjustment accounts which are included in accumulated other comprehensive income (loss).

In subsidiaries where the primary currency is the U.S. Dollar, accounts maintained in currencies other than the U.S. Dollar are remeasured into U.S. Dollars using the representative foreign exchange rate at the balance sheet date. Operational accounts and nonmonetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are reported in current operations.

(d) Foreign Exchange Derivative Contracts

The Company s derivative financial instruments consist of foreign currency forward exchange contracts and SWAP contracts. These contracts are utilized by the Company, from time to time, to manage risk exposure to movements in foreign exchange rates. None of these contracts qualify for hedge accounting. These contracts are recognized as assets or liabilities on the balance sheet at their fair value, which is the estimated amount at which they could be settled based on market prices or dealer quotes, where available, or based on pricing models. Changes in fair value are recognized currently in earnings.

As of December 31, 2008, the Company had open foreign currency forward exchange contracts to purchase U.S. dollars and sell Euros in the amount of \$1.6 million, to purchase Euro and sell U.S. dollars in the amount of \$2.2 million, to purchase U.S. dollars and sell NIS in the amount of \$5.0 million and to purchase NIS and sell U.S. Dollars in the amount of \$5.0 million.

On May 15, 2008, the Company entered into a SWAP agreement with respect to its Series B debentures, in the principal amount of \$165.7 million, due 2016. As a result of these agreements the Company is currently paying an effective interest rate of LIBOR plus 5.12% on \$43.9 million of these debentures, as compared to the original 6.6% fixed rate which is linked to the Israeli consumer price index.

As of December 31, 2008, the value of the currency SWAP resulted in a \$4.2 million liability and an interest expense in the same amount.

(e) Investments

- (i) Investments in Affiliates

Investments in which the Company exercises significant influence, generally 20% to 50% owned companies (affiliates), are accounted for by the equity method, whereby the Company recognizes its proportionate share of such companies net income or loss and in other comprehensive income its proportional share in translation difference on net investments and in other comprehensive income (loss). The Company reduces the carrying value of its investment in an affiliate if an impairment in value of that investment is deemed to be other than

temporary.

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(ii) **Cost Basis Investments**

Equity investments of less than 20% in non-publicly traded companies are carried at cost subject to impairment.

(iii) **Investments in Marketable Securities**

Marketable equity securities, other than equity securities accounted for by the equity method, are reported based upon quoted market prices of the securities. For those securities, which are classified as trading securities, realized and unrealized gains and losses are reported in the statements of operations. Unrealized gains and losses net of taxes from those securities that are classified as available-for-sale, are reported as a separate component of shareholders' equity and are included in accumulated other comprehensive income (loss) until realized. Decreases in value determined to be other than temporary on available-for-sale securities are included in the statements of income (loss).

(f) **Business combinations**

Business combinations have been accounted for using the purchase method of accounting. Under the purchase method of accounting the results of operations of the acquired business are included from the date of acquisition. The costs of acquiring companies, including transactions costs, have been allocated to the underlying net assets of each acquired company in proportion to their respective fair values. Any excess of the purchase price over estimated fair values of the identifiable net assets acquired has been recorded as goodwill.

(g) **Inventories**

Inventories—mainly chemicals and other materials intended for sale, are valued at the lower of cost or market. Cost is determined based on the moving average basis.

(h) **Risk Factors and Concentrations**

Financial instruments that subject the Company to credit risk consist primarily of cash, cash equivalents, bank deposits, marketable securities and notes and loans receivable. The Company invests cash equivalents and short-term investments through high-quality financial institutions. The Company's management believes that the credit risk in respect of these balances is not material.

The company evaluates its allowance for doubtful accounts by analyzing specifically identified debts whose collection is doubtful.

(i) **Long Lived Assets**

The assets are recorded at cost, depreciating these costs over the expected useful life of the related assets.

Fixed assets of subsidiaries which existed at the time of the subsidiary's acquisition by the company are included at their fair value as that date.

Financial expenses incurred during the construction period have been capitalized to the cost of the land and building.

The Company applies the provisions of SFAS No. 144—Accounting for the Impairment or Disposal of Long-Lived assets (SFAS 144). SFAS 144 requires that long-lived assets, to be held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under SFAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss would be

recognized, and the assets are written down to their estimated fair values.

(j) Discontinued operations

Under SFAS 144, when a component of an entity, as defined in SFAS 144, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal should be classified as discontinued operations. That is, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the Company's consolidated operations and the Company will no longer have any significant continuing involvement in the operations of the component. In 2007 the Company sold its interest in Am-Hal, a wholly owned subsidiary, and classified Am-Hal as discontinued operations.

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(k) Fixed assets

(i) These assets are stated at cost. Fixed assets of subsidiaries, which existed at the time of the subsidiary's acquisition by the Company, are included at their fair value as of that date.

(ii) Depreciation is computed by the straight-line method, on the basis of the estimated useful life of the assets.

Annual rates of depreciation are as follows:

	%
Vessels	7
Trailers	10 - 33.3
Land	-
Real estate	6 1/2
Storage tankers	4 - 10
Vehicles	15
Equipment	4-33
Rental improvement	*

* As per the rental years remaining.

Leasehold improvements are amortized by the straight-line method over the term of the lease, which is shorter than the estimated useful life of the improvements.

(iii) Vessels are depreciated over their estimated economic lives. For the purpose of computing the depreciation, an estimation of the salvage value was deducted from the depreciable base of the ships.

(iv) Vehicles leased by the companies under capital leases are presented as the companies' assets and are recorded, at the inception of the lease, at the lower of the asset's fair value or the present value of the minimum lease payments (not including the financial component).

(l) Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized but is subject to impairment tests annually on December 31 or more often when events or circumstances indicate that the carrying amount of goodwill may not be recoverable. A goodwill impairment loss is recognized to the extent the carrying amount of goodwill exceeds the implied fair value of goodwill. In accordance with SFAS 144, the Company assesses intangible assets subject to amortization, when events or circumstances indicate that the carrying amount of those assets may not be recoverable. Impairments of intangible assets are recognized when the carrying values of the assets are less than the

expected cash flows of the assets on an undiscounted basis. All amortizable assets are amortized over their estimated useful lives.

(m) Income Taxes

The Company applies the asset and liability method of accounting for income taxes, whereby deferred taxes are recognized for the tax consequences of temporary differences by applying estimated future tax effects of differences between financial statements carrying amounts and the tax bases of existing assets and liabilities. Deferred tax assets are created to the extent management believes that it is more likely than not that it will be utilized, otherwise a valuation is provided for those assets that do not qualify under this term.

The Company does not record deferred income taxes on undistributed earnings of foreign subsidiaries adjusted for translation effect since such earnings are currently expected to be permanently reinvested outside the United States.

Income taxes are provided on equity in earnings of affiliates, gains on issuance of shares by affiliates and unrealized gains on investments. Ampal's foreign subsidiaries file separate tax returns and provide for taxes accordingly.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides recognition criteria and a related measurement model for tax positions taken by companies. In accordance with FIN 48, a tax position is a position in a previously filed tax return or a position expected to be taken in a future tax filing that is reflected in measuring current or deferred income tax assets and liabilities. Tax positions are recognized only when it is more likely than not (likelihood greater than 50 percent), based on technical merits, that the position will be sustained upon examination. Tax positions that meet the more likely than not threshold are measured using a probability weighted approach as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement.

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(n) Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104 Revenue Recognition. Revenue is recognized when (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Company; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Chemical income derives from the following activities: sales of a wide range of liquid chemicals, providing maritime shipping services of chemicals by ships and providing other services which include logistics and storage services for chemicals.

Revenue for services is recognized as follows:

Revenues arising from the provision of marine transport services proportionally over the period of the marine transport services. As to voyages uncompleted in which a loss is expected, a full provision is made in the amount of the expected loss.

Revenues from chemical brokerage commissions are recognized when the right to receive them is created.

Rental income is recorded over the rental period. Revenues from services provided to tenants and country-club subscribers are recognized ratably over the contractual period or as services are performed. Revenue from amortization of tenant deposits (included in discontinued operation) was calculated at a fixed periodic rate based on the specific terms in the occupancy agreement signed with the tenants.

Income from other services is recognized over the period during which those services are preformed.

(o) Cash and Cash Equivalents

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Cash equivalents are short-term, highly liquid investments (bank accounts and bank deposits) that have original maturity dates of three months or less and that are readily convertible into cash.

Cash equal to \$2.7 million has been placed as a compensating balance for various loans provided to the Company.

(p) Earning (loss) per share (EPS)

Basic and diluted net earning (loss) per share are presented in accordance with SFAS No. 128 Earnings per share (SFAS No. 128) and with EITF 03-06 participating securities and the two-class method under FAS 128". In 2008, 2007 and 2006, all outstanding stock options have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for these periods presented. Also, participating 4% Convertible Preferred Stock was not taken into account in the computation of the basic EPS in 2006, since its shareholders do not have contractual obligation to share in the losses of the Company.

(q) Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income , (SFAS No. 130) established standards for the reporting and display of comprehensive income (loss), its components and accumulated balances in a full set of general purpose financial statements. The Company's components of comprehensive income (loss) are net income (losses), net unrealized gains or losses on available for sale investments and foreign currency translation adjustments, which are presented net of income taxes.

(r) Employee Stock Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123R, using the Modified Prospective Approach. SFAS No. 123R revises SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). SFAS No. 123R requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at grant date, or the date of later modification, over the requisite service period. In addition, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in the pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite service period.

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Under the Modified Prospective Approach, the amount of compensation cost recognized includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123 and (ii) compensation cost for all share-based payments that will be granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Upon adoption, the Company recognizes the stock based compensation of previously granted share-based options and new share-based options under the straight-line method over the requisite service period.

The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R. The Company recognizes no income tax benefit on its stock compensation expense and will not be able to utilize them to offset future income taxes.

(s) Treasury stock

These shares are presented as a reduction of shareholders' equity at their cost to the Company. Gains, net of losses and of the related tax, on the sale of these shares are carried to other capital surplus. Losses, net of gains, on the sale of these shares, are deducted from retained earnings.

The Company records treasury shares repurchased at cost.

(t) Recently Issued Accounting Pronouncements

SFAS No. 157 Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). In February 2008, the FASB deferred for one additional year the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the parts of SFAS 157 that became effective in 2008 did not have a material impact on the Company's financial statements. The Company is currently evaluating the impact, if any, the adoption of the remaining parts of SFAS 157 will have on its financial statements.

SFAS No. 141R Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) which replaces SFAS No. 141, Business Combination . SFAS 141R establishes the principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) discloses the business combination. This Statement applies to all transactions in which an entity obtains control of one or more businesses, including transactions that occur without the transfer of any type of consideration. SFAS 141R will be effective on a prospective basis for all business combinations on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Early adoption is not allowed. The Company is in process of evaluating the impact, if any, the adoption of SFAS 141R will have on the Company's consolidated results of operations or financial position.

SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" (SFAS 160). SFAS 160 amends ARB No. 51 and establishes accounting and reporting standards that require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be remeasured at fair value, with any gain or loss recognized in earnings. SFAS 160 will be effective for the Company commencing January 1, 2009, except for the presentation and disclosure requirements, which will be applied retrospectively. Early adoption is not allowed. The Company is in process of evaluating the impact, if any, that the adoption of SFAS 160 will have on the Company's consolidated results of operations or financial position.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities

In March 2008, FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161). FAS 161 amends and expands the disclosure requirements of FAS 133 to clarify how and why companies use derivative instruments. In addition, FAS 161 requires more disclosures regarding how companies account for derivative instruments and the impact derivatives have on a company's financial statements. This statement is effective for us beginning in 2009 and will only impact our disclosures. It will have no impact on our financial position, results of operations and cash flows.

SFAS No. 142-3 Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FASB Staff Position (the FSP) FAS No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, Business Combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a significant impact on the Company's results of operations, financial condition or liquidity.

Note 2 Investments**a. Non-current investments**

The balance of investments as of December 31, 2008 and 2007, are composed of the following items:

	As of December 31,	
	2008	2007
(U.S. Dollars in thousands)		
EMG	\$ 361,323	\$ 361,323
Investment in Affiliates	13,385	9,339
Other Investments	904	1,129
	<u>\$ 375,612</u>	<u>\$ 371,791</u>

b. Marketable securities

The Company's investments in Marketable securities are mainly in government debentures and the Company classifies such investments as trading securities or available-for-sale securities.

(a) Trading Securities

The cost and market values of Trading securities at December 31, 2008 and 2007 are as follows:

		Cost	Unrealized Gains	Unrealized (Loss)	Market Value
		(U.S. Dollars in thousands)			
Trading stocks	2008	\$ 17	\$ -	\$ (12)	\$ 5
Debentures	2008	\$ 4,207	\$ 314	\$ (130)	\$ 4,391
		<u>4,224</u>	<u>314</u>	<u>(142)</u>	<u>4,396</u>
Trading stocks	2007	\$ 141	\$ 34	\$ (2)	\$ 173
Debentures	2007	\$ 6,095	\$ 261	\$ (7)	\$ 6,349
		<u>6,236</u>	<u>295</u>	<u>(9)</u>	<u>6,522</u>

(b) Available-For-Sale Securities**b. Marketable securities**

		Cost	Unrealized gains	Unrealized (Loss)	Market Value
(U.S. Dollars in thousands)					
Trading stocks	2008	\$ 734	\$ -	\$ -	\$ 734
Debentures	2008	\$ 48,657	\$ 633	\$ (1,561)	\$ 47,729
		<u>49,391</u>	<u>633</u>	<u>(1,561)</u>	<u>48,463</u>
Trading stocks	2007	\$ 2,199	\$ -	\$ (17)	\$ 2,182
Debentures	2007	\$ 13,804	\$ -	\$ (49)	\$ 13,755
		<u>16,003</u>	<u>-</u>	<u>(66)</u>	<u>15,937</u>

Note 3 Acquisitions and Dispositions

a) In 2008, the Company made the following investments:

- On June 3, 2008, Ampal completed its acquisition of an additional 14.98% of the outstanding ordinary shares (14.71% on a fully diluted basis) of Gadot Chemical Tankers and Terminals Ltd. (Gadot) through its wholly owned subsidiary Merhav Ampal Energy Ltd. (MAE). The total consideration was \$17.7 million. The consideration was financed with Ampal's own resources and with borrowings in the amount of \$11.3 million.

The acquisition was accounted for by the purchase method. The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed, based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

The identified tangible and intangible assets acquired amounted to approximately \$5.8 million and \$6.4 million, respectively. The main assets included are ships and tankers and option to purchase and lease ships, of approximately \$4.0 million and \$4.5 million, respectively, to be amortized over an estimated useful life of 12 and 5 years, respectively.

On August 12, 2008, Ampal completed its acquisition of an additional 20.6% of the outstanding ordinary shares and 66.76% of the outstanding convertible debentures of Gadot and now indirectly holds 100% of the outstanding ordinary shares (99.99% on a fully diluted basis) of Gadot through MAE. The total consideration was \$23.3 million. The consideration was financed with Ampal's own resources and with borrowings in the amount of \$15.4 million.

The acquisition was accounted for by the purchase method. The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed, based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

The identified tangible and intangible assets acquired amounted to approximately \$3.4 million and \$4.3 million, respectively. The main assets included are ships and tankers and option to purchase and lease ships, of approximately \$4.4 million and \$3.2 million, respectively, to be amortized over an estimated useful life of 12 and 5 years, respectively.

These transactions follow the acquisition by Ampal of a 65.5% controlling interest (63.66% on a fully diluted basis) in Gadot on December 3, 2007.

As a result of these transactions, Gadot is now a wholly owned subsidiary of the Company and its shares and debentures have been delisted from the Tel Aviv Stock Exchange (the TASE).

Gadot and its group of companies form Israel's leading chemical distribution organization. Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to the local industry. For further information regarding Gadot, see Item 1

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Chemicals Gadot Chemical Tankers and Terminals Ltd. Of Ampal's Annual Report on Form 10-K for the year ended December 31, 2008.

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2. Option Agreement for Sugarcane Ethanol Project in Colombia

On May 29, 2008, Ampal loaned Merhav M.N.F. Ltd. (Merhav) \$10.0 million, in addition to the currently outstanding \$10.0 million that were loaned on December 25, 2007, to fund the sugarcane ethanol production project (the Project) in Colombia being developed by Merhav. The additional loan was made pursuant to the existing promissory note, dated as of December 25, 2007, by Merhav in favor of Ampal (the Promissory Note). The Promissory Note was given in connection with an option agreement dated December 25, 2007 (the Original Option Agreement), with Merhav providing Ampal with the option (the Option) to acquire up to a 35% equity interest in the Project. The loan will be convertible into all or a portion of the equity interest purchased pursuant to the Original Option Agreement.

On December 25, 2008, Ampal entered into an amendment (the Option Amendment) to the Original Option Agreement. Under the Original Option Agreement, the Option expired on the earlier of December 25, 2008 or the date (the Financing Date) on which both (i) Merhav obtained third-party debt financing for the Project and (ii) an unaffiliated third party holds at least a 25% equity interest in the Project. The Option Amendment extends the expiration of the Option to the earlier of December 31, 2009 or the Financing Date.

The Option Amendment also provides that in determining the price to be paid by Ampal for shares pursuant to the option under the Valuation Model (as defined below), the parties have agreed to review the discount rate set forth in the Valuation Model to determine whether the discount rate should be increased, provided, however, that the purchase price shall not exceed the amount Ampal would have paid without giving effect to the Option Amendment. The maximum purchase price for any interest in the Project purchased by Ampal pursuant to the option would be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the Amended Promissory Note referred to below, the lesser of (i) a price based on a currently agreed valuation model as updated from time to time to reflect changes in project, financing and other similar costs (the Valuation Model) as such updates are reviewed by Houlihan Lokey Howard & Zukin at the time of the option's exercise or (ii) the lowest price paid by any unaffiliated third party for an interest in the Project, or (B) with respect to any portion of such interest in the Project being purchased in excess of the balance of the Amended Promissory Note, the lowest price paid by an unaffiliated third party for its interest in the Project, unless no unaffiliated third party has purchased an interest in the Project, in which case the purchase price will be based on the Valuation Model.

In consideration for Merhav entering into the Option Amendment, Ampal agreed to certain amendments to the Promissory Note reflected in an Amended and Restated Promissory Note, dated December 25, 2008 (the Amended Promissory Note). The Amended Promissory Note provides for (i) an increase in the annual interest rate from LIBOR plus 2.25% to LIBOR plus 3.25% and (ii) an extension of the maturity date of the Promissory Note to December 31, 2009. As a condition to amending and restating the Promissory Note, Ampal received a personal guaranty dated as of December 25, 2008, from Yosef A. Maiman personally guaranteeing the obligations of Merhav under the Amended Promissory Note.

The loan continues to be secured by Merhav's pledge to Ampal, pursuant to a Pledge Agreement dated December 25, 2007, between Merhav and Ampal, of all of the shares of Ampal's Class A Common Stock, par value \$1.00 per share, owned by Merhav.

Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholders group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transaction.

3. Additional investment of \$2.1 million in GWE.
4. A loan to Bay Heart Ltd. (Bay Heart) of \$8.6 million, for a shopping mall in Haifa, Israel.
5. On September 22, 2008, Gadot purchased from Milchen Communications Ltd. (Milchen) a segment of its activities engaged in operating a sales agency in Israel representing well-known manufacturers, selling a wide range of products, including chemicals and polymers and other materials for the printing and press industry. Gadot purchased this segment of activity for approximately \$1.3 million, out of which approximately \$0.4 million were paid for material inventory and approximately \$0.9 million for goodwill.

b) In 2008, Ampal made the following dispositions:

1. During 2008, the Company received proceeds in the total amount of \$0.2 million from the sales of certain investments by FIMI Opportunity Fund, L.P. (FIMI).
2. On March 2008, the Company received \$0.3 million from the sale of certain assets by PSINet Europe, one of the holdings of Telecom Partners (TP).

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3. On August 7, 2008, the Company signed an agreement for the sale of its 50% holdings of Country Club Hod Hasharon Sport Center for a consideration of \$2 million.
4. During 2008, the Company received \$0.6 million from the sale of certain assets by Ophir Holdigns Ltd.

c) In 2007, the Company made the following investments:

1. On December 3, 2007, Ampal completed its acquisition of 65.5% of the control and ownership (63.66% on a fully diluted basis) of Gadot. The total consideration including direct transaction expenses was \$91.2 million. The cash consideration was financed with Ampal's own resources and with borrowings in the amount of \$60.7 million.

Gadot and its group of companies is an Israeli chemical distribution organization. Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to the local industry.

The acquisition was accounted for by the purchase method. The results of operations of Gadot were included in the consolidated financial statements of Ampal commencing November 30, 2007. The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed, based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers. The following table summarizes the final fair values of the assets acquired and liabilities assumed, with reference to Gadot balance sheet data as of November 30, 2007:

	<u>U.S. dollars in millions</u>
Current assets	\$ 166,365
Investments and other non-current assets	31,145
Fixed assets	74,430
Identifiable intangible assets	9,503
Goodwill	50,406
	<hr/>
Total assets acquired	331,849
	<hr/>
Current liabilities	(94,703)
Long-term liabilities, including deferred taxes	(124,523)
Minority interest	(21,422)
	<hr/>
Total liabilities assumed	(240,648)
	<hr/>
Net assets acquired	\$ 91,201
	<hr/>

Under the purchase method of accounting, the total consideration of \$91.2 million allocated to Gadot's identifiable tangible and intangible assets and liabilities assumed based on their estimated fair values as of the date of the completion of the transaction.

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Below are the unaudited pro forma combined statements of operations data for the years ended December 31, 2007 and 2006 as if the acquisition of Gadot had occurred on January 1, 2007 and 2006, respectively, after giving effect to: (a) purchase accounting adjustments, including amortization of identifiable intangible assets; and (b) estimated additional interest expense due to the loan granted to Ampal in connection with the acquisition. This pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisition taken place at the beginning of 2007 and 2006, respectively, nor is it necessarily indicative of future results.

	2007	2006
	U.S. dollars in thousands except earning per share (unaudited)	
Total revenues	\$ 409,106	\$ 241,750
Income (loss) from continuing operations	(3,224)	1,222
Basic and diluted Earning per share:		
Loss income from continuing operations	(0.06)	(0.05)

2. During 2007, the Company made an additional investment in East Mediterranean Gas Company S.A.E. (EM) as follows:

On June 4, 2007, EMG called for additional capital from its shareholders. As a result, Ampal paid an additional \$5.8 million in order to maintain its pro rata beneficial interest in EMG.

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On November 29, 2007, Ampal and the Israel Infrastructure Fund (IIF), leading a group of institutional investors (the Investors), purchased a 4.3% interest in EMG, through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (the Joint Venture), from Merhav M.N.F. Ltd. for a purchase price of approximately \$95.4 million, using funds provided by the Investors. In addition to the Joint Venture s purchase from Merhav., Ampal contributed into the Joint Venture an additional 4.3% interest in EMG already held by Ampal. The Joint Venture now holds a total of 8.6% of the outstanding shares of EMG. Ampal s contribution was valued at the same price per EMG share as the Joint Venture s purchase. This amount is equivalent to the purchase price (on a per share basis) paid by Ampal for its December 2006 purchase of EMG shares from Merhav, which was accounted for as a transfer of assets between entities under common control, which resulted in Merhav transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav Merhav s operations, Merhav would be treated as an investment company under US GAAP, and as such, the carrying value of the investment in EMG would equal fair value. On this basis, the said investment in EMG was transferred to Ampal at carrying value, which also equals fair value. Based on the terms stipulated in the shareholders agreement of the general partner of the Joint Venture, Ampal and Israel Infrastructure G.P. Ltd. have equal rights in governing the affairs of the Joint Venture. However, in certain events and under certain conditions, matters relating to decisions on how to vote the EMG shares held by the Joint Venture shall be decided by the directors of the general partner of the Joint Venture appointed by Ampal. As such, Ampal has consolidated the results of the Joint Venture in its financial statements.

The Company s Financial Statements reflect a 16.8% interest in shares of EMG, with 8.2% held directly and 8.6% held through the Joint Venture (of which Ampal owns 50%).

Yosef A. Maiman, the Chairman, President and CEO of the Company and a member of the controlling shareholder group of the Company, is the sole owner of Merhav.

3. Wind Energy Joint Venture

On November 25, 2007, Merhav Ampal Energy Ltd. (MAE) signed a joint venture agreement with Clal Electronics Industries Ltd. (Clal), an Israel-based holding company, for the formation of a joint venture that will focus on the new development and acquisition of controlling interests in wind energy projects outside of Israel. The joint venture, owned equally by Clal and the Company through MAE, will seek to either develop or acquire wind energy opportunities with a goal of establishing at least 150MW of installed capacity within the next 3.5 years. The joint venture s initial project is the development of a wind farm in

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Greece. The Company has approved a \$25 million budget for these projects

4. Option Agreement for Sugarcane Ethanol Project in Colombia

On December 25, 2007, Ampal entered into the Original Option Agreement referred to above with Merhav providing Ampal with the Option to acquire up to a 35% equity interest in the Project being developed by Merhav under the Original Option Agreement, the Option was to expire on the earlier of December 25, 2008 or the date on which both (i) Merhav has obtained third-party debt financing for the Project and (ii) an unaffiliated third party holds at least a 25% equity interest in the Project. The Original Option Agreement provided that the purchase price for any interest in the Project purchased by Ampal pursuant to the Original Option Agreement would be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the Promissory Note, the lesser of (i) a price based on a currently agreed Valuation Model as updated from time to time to reflect changes in project, financing and other similar costs as such updates are reviewed by Houlihan Lokey Howard & Zukin Financial Advisors, Inc. at the time of the option's exercise or (ii) the lowest price paid by any unaffiliated third party for an interest in the Project, or (B) with respect to any portion of such interest in the Project being purchased in excess of the balance of the Promissory Note, the lowest price paid by an unaffiliated third party for its interest in the Project, unless no unaffiliated third party has purchased an interest in the Project, in which case the purchase price will be based on the Valuation Model. As described in Note 3(a) above, the Original Option Agreement was amended by the Option Amendment.

As stated above, Ampal loaned Merhav M.N.F. Ltd. \$10 million to fund the purchase of the 11,000 hectares of property in Colombia required for growing sugarcane and the construction of an ethanol production facility for the Project, pursuant to the Promissory Note, dated as of December 25, 2007, by Merhav in favor of Ampal. Under the Promissory Note, Ampal agreed to advance up to an additional \$10 million to fund the Project pursuant to the Promissory Note. Under the Promissory Note, the loan bore interest at an annual rate equal to LIBOR plus 2.25%, and was convertible into all or a portion of the equity interest purchased pursuant to the option. As stated in Note 3(a) above, the Promissory Note was amended by the Amended Promissory Note.

As security for the loan, Merhav has pledged to Ampal, pursuant to a pledge agreement, dated December 25, 2007, between Merhav and Ampal, all of the shares of Ampal's Class A Stock, par value \$1.00 per share, owned by Merhav.

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Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholders group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transaction. Houlihan Lokey Howard & Zukin Financial Advisors, Inc., which has been retained as financial advisor to the special committee, advised the special committee on this transaction.

5. Additional investment of \$0.1 million in FIMI

6. A loan to Bay Heart of \$3.6 million, for a shopping mall in Haifa, Israel.

d) In 2007, Ampal made the following dispositions:

1. On May 21, 2007, the Company closed the sale of its equity method holdings in Carmel Containers Limited (CWI), a packaging manufacturer affiliate based in Israel. Pursuant to this transaction, Ampal and its subsidiaries sold to Carmel an aggregate of 522,350 ordinary shares of Carmel for an aggregate sales price of approximately \$4.6 million. The Company recorded no gain since impairment was recorded in the first quarter of 2007.
2. During 2007, the Company received proceeds in the total amount of \$0.8 million from the sales of certain investments by FIMI.
3. On August 5, 2007, the Company completed the sale of its holdings in Am-Hal Ltd. (Am-Hal) for an aggregate consideration of \$29.3 million and recorded a gain of approximately \$29.4 million (approximately \$21.7 million, net of taxes). The gain and Am-Hal's results of operations until June 30, 2007, were recorded as discontinued operations for all periods presented.
4. On December 2007 Chem-Tankers C.V. sold a ship for \$6.9 million (capital gain of \$3.4 million).

e) In 2006, the Company made the following investments:

1. During 2006, the Company made additional investments of \$229.9 million in EMG as follows:

The Company, through MAE, a wholly-owned subsidiary of the Company, entered into an agreement with Merhav for the purchase from Merhav a portion of its interest in EMG, an Egyptian joint stock company. The sole owner of Merhav is Yosef A. Maiman, who is also the Chairman, President and CEO of the Company and a member of the controlling shareholder group of Ampal.

On August 1, 2006 the Company acquired the beneficial ownership of 4.6% of the outstanding shares of EMG's capital stock from Merhav. The transaction was accounted for as a transfer of assets between entities under common control, which resulted in Merhav transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav's operations, this entity would be treated as an investment company under US GAAP, and as such, the carrying value of the investment in EMG would equal fair value. On this basis, the 4.6% investment in EMG was transferred to Ampal at carrying value, which also equals fair value. The purchase price for the shares was \$100.0 million, of which, \$50.0 million was paid in cash and the balance was paid in 10,248,002 shares of the Company Class A Stock (based on a purchase price of \$4.88 per share) that was accounted for at a fair value of \$49.0 million (the fair value was determined based on the average price per share from 2 days before the agreement press release through 2 days after the agreement press release). The issuance of the shares of Class A Stock received the approval of the shareholders of the Company as required by the marketplace rules of the NASDAQ Global Market. As a result of this transaction, the Company beneficially owned 6.6% of the total outstanding shares of EMG. Through August 2008, the purchase price may be adjusted downward should Merhav sell any of its remaining shares of EMG to a third-party purchaser at a purchase price per share lower than the price per share paid by the Company pursuant to the agreement. Additionally, pursuant to the agreement, the Company was granted an option for a period of up to two years to have the right to acquire up to an additional 5.9% of the total outstanding shares of EMG stock.

Yosef A. Maiman, the Chairman, President and CEO of the Company and a member of the controlling shareholder group of the Company, is the sole owner of Merhav. Because of the foregoing relationships, a special committee of the Board of Directors composed of the Company's independent directors, who also constitute all of the members of the Company's Audit Committee, negotiated and approved the transaction. Houlihan Lokey Howard & Zukin Financial Advisors, Inc., which was retained as financial advisor to the special committee, delivered a fairness opinion to the special committee regarding the transaction.

On August 22, 2006, EMG called for additional capital from all of its shareholders. As a result, the Company paid an additional \$2.7 million in order to maintain its pro rata beneficial interest in this investment.

On December 21, 2006, the Company acquired the beneficial ownership of an additional 5.9% of the outstanding shares of EMG's capital stock pursuant to an option granted by Merhav in August 2006. The transaction was accounted for as a transfer of assets between entities under common control, which resulted in Merhav transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav's operations, Merhav would be treated as an investment company under US GAAP, and as such, the carrying value of the investment in EMG would equal fair value. On this basis, the 5.9% investment in EMG was transferred to Ampal at carrying value, which also equals fair value.

The purchase price for the shares was approximately \$128.3 million, of which approximately \$68.3 million was paid in cash, \$40 million was paid in 8,602,151 shares of the Company's Class A Stock and the balance was satisfied by the issuance of a promissory note in the principal amount of \$20 million (the Convertible Promissory Note), which, at the option of Merhav, could have been paid in cash, additional shares of the Company Class A Stock (based on a price per share of \$4.65 per share), or a combination thereof. As permitted under the stock purchase agreement, Merhav assigned its right to the 8,602,151 Shares to De Majorca Holdings Limited (De Majorca) as part of Merhav's restructuring process. The Convertible Promissory Note bore interest at 6 months LIBOR (5.375%) and matured on the earlier of September 20, 2007 or upon demand by Merhav. On September 20, 2007, Merhav exercised its option to convert the outstanding balance of \$20.8 million (which includes accrued interest of \$0.8 million) on the Convertible Promissory Note into 4,476,389 shares of Class A Stock of the Company. As a result of this transaction, Ampal beneficially owns 16.8% of the total outstanding shares of EMG (8.6% of which is held by the Joint Venture, of which Ampal owns 50%). The issuance of the 8,602,151 shares and the shares underlying the Convertible Promissory Note received the approval of the shareholders of the Company on February 7, 2007, as required by the marketplace rules of the NASDAQ Global Market. Due to the agreement of the controlling shareholder group to vote in favor of the issuance of these shares to Merhav as of the closing date of the EMG transaction (which ensured that the proposal would be adopted by the requisite shareholder vote on February 7, 2007), the Company classified for accounting purposes the sale of these shares as part of the exchange with Merhav on December 21, 2006, and recognized the \$40 million within shareholders' equity as Receipt on

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account of unallocated shares. The investment in EMG is included in the energy segment.

Yosef A. Maiman, the Chairman, President and CEO of the Company and a member of the controlling shareholder group of the Company, is the sole owner of Merhav. Because of the foregoing relationships, a special committee of the Board of Directors composed of the Company's independent directors, who also constitute all of the members of the Company's Audit Committee, negotiated and approved the transaction. Houlihan Lokey Howard & Zukin Financial Advisors, Inc., which was retained as financial advisor to the special committee, advised the special committee on these transactions.

2. Additional investment of \$0.4 million in FIMI.
 3. A loan to Bay Heart of \$1.7 million, for a shopping mall in Haifa, Israel
- f) In 2006, Ampal made the following dispositions (none of which were discontinued operations):
1. In June and December 2006, the Company received proceeds in the total amount of \$0.6 million from the sales of certain investments by FIMI.
 2. On June 13, 2006, the Company sold its holdings in Coral World International for \$21.0 million and recorded a gain of \$4.2 million. The gain is included in the leisure-time segment.
 3. In March 2006, the Company received additional proceeds from the sale of Modem Art Ltd. in the amount of \$0.6 million.
 4. In April 2006, the Company received additional proceeds in the amount of \$0.4 million from the sale of certain assets by PSINet Europe, one of the holdings of Ampal's investee company, TP.
 5. On May 8, 2006, the Company sold its holdings in Ophir Holdings Ltd. for \$1.1 million and recorded a loss of \$1.0 million.
 6. In September 2006, the Company sold the building in Tel-Aviv containing its headquarters for a proceeds of \$4.6 million and recorded a gain of \$2.2 million. The new owner agreed to lease to the Company the office space containing the Company's headquarters for a period of up to 2 years commencing on November 28, 2006. The annual rent for this lease was \$162,000. The gain from the sale is included in the real-estate segment.

Note 4 Fair value measurement

On September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair-value measurements. The Company adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis. Although the adoption of SFAS 157 did not materially impact the Company's financial condition, results of operations or cash flows, the Company is required to provide additional disclosures within its condensed consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer the liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy within SFAS 157 distinguishes between three levels of inputs that may be utilized when measuring fair value including level 1 inputs (using quoted prices in active markets for identical assets or liabilities), level 2 inputs (using inputs other than level 1 prices such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability) and level 3 inputs (unobservable inputs supported by little or no market activity based on the company's own assumptions used to measure assets and liabilities). A financial asset's or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company also adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for

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which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years after November 15, 2007. The Company did not elect to apply the fair value option available under SFAS 159 for any of its eligible instruments.

Financial assets and liabilities measured at fair value on a recurring basis as at December 31, 2008 consisted of the following (in thousands):

Fair Value Measurements as at December 31, 2008 Using:

	Level 1	Level 2	Total
	_____	_____	_____
Trading securities *	\$ 4,396	\$ -	\$ 4,396
Available for sale securities *	48,463	-	48,463
Derivative assets - forward agreements	-	9,601	9,601
Derivative liabilities **	-	(14,323)	(14,323)
	_____	_____	_____
Total	\$ 52,859	\$ (4,722)	\$ 48,137
	_____	_____	_____

Marketable securities that are classified in level 1 consist of available-for-sale and trading securities for which market prices are readily available and marketable securities that are classified in level 2 consist of trading securities for which there are quoted prices in active broker's markets. The fair value of derivative assets are determined based on inputs that can be derived from information available in publicly quoted markets. Unrealized gains or losses from available-for-sale securities are recorded in accumulated other comprehensive (loss) income.

* The trading securities and available for sale securities are mainly traded debentures

** Out of which \$ 4.2 million is attributable to a SWAP agreement and the remaining to forward agreements.

Note 5 Intangible assets

The following table presents the components of the Company's acquired intangible assets with definite lives:

		Original amount		Amortized balance	
		December 31		December 31	
		2007	2008	2007	2008
	Weighted average amortization period				
	Years	U.S. \$ in thousands			
	_____	_____	_____	_____	_____
Options to purchase ships *	At time of exercise	1,662	4,653	\$ 1,662	\$ 4,653
Ships leasing	2-4	3,331	6,192	3,325	4,512
Supplier relation	8-9	3,460	4,882	3,405	3,839
Customer relation	18-19	1,050	2,064	1,041	1,779
	_____	_____	_____	_____	_____
Identifiable intangible assets		9,503	17,791	9,433	14,783

The annual estimated amortization expense relating to Ampal's amortizable intangible assets existing as of December 31, 2008, for each of the four years in the period ending December 31, 2012, is approximately \$2.1 million.

* The options expire in 2009 and 2012.

Note 6 Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007 are as follows:

(U.S. \$ in thousands)

Balance as of January 1, 2007	\$	0
Changes during 2007:		
Goodwill acquired during the year	\$	50,406
Balance as of December 31, 2007	\$	50,406
Changes during 2008:		
Goodwill acquired during the year	\$	906
Translation differences	\$	244
Balance as of December 31, 2008	\$	51,556

As part of the purchase of Gadot, the Company recorded the goodwill and as such it is part of the chemical segment.

Note 7 - Fixed assets

The balance of fixed assets as of December 31, 2008 and 2007 is comprised as follows:

	As of December 31,	
	2008	2007
(U.S. Dollars in thousands)		
Cost:		
Vessels	\$ 66,526	\$ 23,821
Trailers	10,262	7,539
Land	2,843	2,180
Real estate	17,629	21,785
Tankers	19,704	17,054
Motor vehicles	1,866	1,713
Equipment	3,192	1,693
Leashold improvement	3,347	919
	<u>125,370</u>	<u>76,704</u>
Accumulated depreciation	13,175	3,697
Fixed assets, net	\$ 112,195	\$ 73,007

Depreciation expenses amounted to approximately \$9,345, \$417 and \$208 (in thousands) for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 8 Notes and Loans Payable

Notes issued to institutional investors in Israel (in the amount of \$96 million), the convertible note issued to Merhav and other loans payable pursuant to bank borrowings are either in U.S. dollars, linked to the Consumer Price Index in Israel or in unlinked New Israel Shekels, with interest rates varying depending upon their linkage provision and mature between 2008-2019.

The Company finances its general operations and other financial commitments through bank loans from Bank Hapoalim, Union Bank of Israel and Israel Discount Bank Ltd. (IDB). As of December 31, 2008, the outstanding indebtedness under these bank loans totaled \$379.7 million and the loans mature through 2008-2019.

As of December 31, 2008, the Company has a \$8.3 million loan with Union Bank of Israel that bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008 and various other loans with Union Bank of Israel in the aggregate amount of \$7.7 million bearing interest at rates between 4.7% and 5.25% to be repaid until 2009.

As of December 31, 2008, the Company has a \$18 million loan with Bank Hapoalim as part of a \$27 million dollar loan facility. The funds borrowed under the loan facility are due in six annual installments commencing on December 31, 2007 and bear interest at an annual rate of LIBOR plus 2%. The related loan agreement contains financial and other covenants including an acceleration of payment upon the occurrence of certain changes in the ownership of the Company's Class A Stock. As of December 31, 2008, the Company is in compliance with its debt covenants.

A short term loan from Bank Hapoalim in the amount of \$3.5 million bears interest of 5.8% and is to be repaid by December 31, 2009.

Other long term borrowings in the amount of \$0.2 million are linked to the Consumer Price Index in Israel, mature between 2009 and 2010 and bear annual interest of 5.7%.

As of December 31, 2008, Gadot, a wholly owned subsidiary of Ampal, has short term loans, including current maturities, payable in the amount of \$95.9 million and long term loans payable in the amount of \$62.2 million. The various short term loans payable are either unlinked or linked to the USD or Euro and bear interest at rates between 3% to 7%. The various long term loans payable are either unlinked or linked to the Consumer Price Index in Israel or linked to the USD or Euro and bear interest at rates between 4.4% to 11.38%.

Ampal funded the Gadot transaction with a combination of available cash and the proceeds of a new credit facility, dated November 29, 2007 between MAE and IDB, for approximately \$60.7 million which amount was increased on June 3, 2008, on the same terms and conditions, by approximately \$11.3 million and also was increased on September 23, 2008, on the same terms and conditions, by approximately \$15.4 million (the Credit Facility). The Credit Facility is divided into two equal loans of approximately \$43.7 million. The first loan is a revolving loan that has no principal payments and may be repaid in full or in part on December 31 of each year until 2019, when a single balloon payment will become due. The second loan also matures in 2019, has no principal payments for the first 1.5 years, and shall thereafter be paid in equal installments over the remaining 9.5 years of the term. Interest on both loans accrues at a floating rate equal to LIBOR plus a percentage spread and is payable on a current basis. Ampal has guaranteed all the obligations of MAE under the Credit Facility and Ampal's interest in Gadot has also been pledged to IDB as a security for the Credit Facility. Yosef Maiman has agreed to maintain ownership of a certain amount of the Company's Class A Common Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type.

The weighted average interest rates and the balances of these short-term borrowings at December 31, 2008 and December 31, 2007 were 5.1% on \$157.2 million and 6.3% on \$136.6 million, respectively.

Payments due as of December 31, 2008:

	(U.S. Dollars in thousands)		
	Short-Term Debt	Long-Term Debt	Total
2009	\$ 157,233	\$ -	\$ 157,233
2010		119,707	119,707
2011		23,262	23,262
2012		22,468	22,468
2013		15,345	15,345
After year 2013		41,717	41,717

(U.S. Dollars in thousands)

\$	157,233	\$	222,499	\$	379,732
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Note 9 Debentures

On April 29, 2008, Ampal completed a public offering in Israel of NIS 577.8 million (approximately \$166.8 million) aggregate principal amount of Series B Debentures due 2017. The debentures are linked to the Israeli consumer price index and carry an annual interest rate of 6.6%. The debentures rank *pari passu* with Ampal's unsecured indebtedness. The debentures will be repaid in five equal annual installments commencing on January 31, 2012, and the interest will be paid semi-annually. As of December 31, 2008, the outstanding debt under the debentures amounts to \$138.7 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. Ampal deposited an amount of \$44.6 million with Clal Finance Trusties 2007 Ltd. in accordance with a trust agreement dated April 6, 2008, to secure the first three years worth of payments of interest on the debentures. As of December 31, 2008 the outstanding amount of the deposit was \$35.8 million.

On November 20, 2006, the Company entered into a trust agreement with Hermetic Trust (1975) Ltd. pursuant to which the Company issued notes to institutional investors in Israel in the principal aggregate amount of NIS 250,000,000 (approximately \$58.0 million) with an interest rate of 5.75%, which is linked to the Israeli consumer price index. The notes shall rank *pari passu* with the Company's unsecured indebtedness. The notes will be repaid in five equal annual installments commencing on November 20, 2011, and the interest will be paid semi-annually. As of December 31, 2008, the outstanding debt under the notes amounts to \$69.0 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. The Company deposited an amount of \$10.2 million with Hermetic Trust (1975) Ltd. to secure the first three years worth of payments of interest on the debentures. As of December 31, 2008, the outstanding amount of the deposit was \$3.8 million. Prior to the issuance of the debentures Midroog Ltd., an affiliate of Moody's Investors Service, rated the Company as A3.

	Series A Debentures		Series B Debentures	
	par value in NIS	U.S. Dollars in thousands	par value in NIS	U.S. Dollars in thousands
Date of issuance	November 20, 2006		April 29, 2008	
Linkage	consumer price index		consumer price index	
Interest	5.75%		6.6%	
Maturity date	November, 2015		January, 2016	
Issuance	250,000,000	57,978	577,823,000	166,856
Purchased in 2008	5,074,418	1,403	68,723,757	19,003
Balance as of December 31, 2008	244,925,582	68,995	509,099,243	138,661

As of December 31, 2008, Gadot had \$0.1 million outstanding under its convertible debentures. The debentures are linked to the Consumer Price Index in Israel, bear annual interest at the rate of 6.5%, and are repayable in December 5, 2009. The debentures are convertible into ordinary shares of Gadot.

As of December 31, 2008, Gadot had \$11.4 million outstanding under its other debentures. These debentures are not convertible into shares and are repayable in five equal annual installments on September 15 of each of the years 2008 through 2012. The outstanding balance of the principal of the debentures bears annual interest at the rate of 5.3%. The principal and interest of the debentures are linked to the Consumer Price Index in Israel and the interest is payable in semi-annual installments on March 15 and September 15 of each of the years 2006 through 2012.

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Note 10 Accounts payable accrued expenses and others

(a) The balance of accounts payable accrued expenses and others as of December 31, 2008 and 2007 is comprised as follows:

	As of December 31,	
	2008	2007
(U.S. Dollars in thousands)		
Short term:		
Deferred income	\$ 1,254	\$ 2,827
Accrued expenses	32,607	21,619
Trade	43,823	45,844
Others	6,241	3,479
	<u>83,925</u>	<u>73,769</u>
Long term:		
Others	9,476	12,760
	<u>\$ 93,401</u>	<u>\$ 86,529</u>

(b) Accrued severance liabilities

Israeli labor laws and agreements require payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. Ampal severance pay liability in Israel, which reflects the undiscounted amount of the liability as if it was payable at each balance sheet date, is calculated based upon length of service and the latest monthly salary (one month's salary for each year worked).

The Company's liability for severance pay pursuant to Israeli law is partly covered by insurance policies. The accrued severance pay liability of \$9.5 million, is included in accounts payable, accrued expenses and other liabilities - others.

The Company expects that the payments relating to future benefits to its employees upon their retirement at normal retirement age in the next 10 years will be immaterial. These payments are determined based on recent salary rates and do not include amounts that might be paid to employees that will cease working with the Company, before their normal retirement age or amount paid to employees that their normal retirement age extends beyond the year 2017.

Note 11 Minority Interest, net

The minority interest as of December 31, 2008, is mostly attributable to the Merhav Ampal Energy LP.

The minority interest as of December 31, 2007, is mostly attributable to the public holding of 34.52% of Gadot's shares.

Note 12 Shareholders Equity

Set forth below is our treasury stock as of December 31, 2008, 2007 and 2006:

Fiscal Year Ended December 31,		
2008	2007	2006

	Fiscal Year Ended December 31,		
	(U.S. Dollars in thousands, except share amounts per share data)		
TREASURY STOCK:			
4% PREFERRED STOCK			
Balance, beginning of year 3,350 shares	\$ -	\$ -	\$ (84)
Elimination of treasury stock 3,350 shares	-	-	84
Balance, at the end of year	\$ -	\$ -	\$ -
6-1/2% PREFERRED STOCK			
Balance, beginning and end of year 122,536 shares	\$ -	\$ -	\$ (1,853)
Elimination of treasury stock 122,536 shares	-	-	1,853
Balance, at the end of year	\$ -	\$ -	\$ -
CLASS A STOCK			
Balance, beginning of year - 5,574,789, 5,574,789 and 5,751,039 shares, at cost	\$ (27,874)	\$ (27,874)	\$ (28,756)
Shares purchase 1,366,415	(1,075)	-	-
Issuance of 89,750 and 176,250 shares	449	-	882
Balance, end of year - 6,851,454, 5,574,789 and 5,574,789 shares, at cost	\$ (28,500)	\$ (27,874)	\$ (27,874)
Balance end of year	\$ (28,500)	\$ (27,874)	\$ (27,874)

Note 13 Stock Options

On February 15, 2000, the Stock Option Committee approved a new Incentive Plan (2000 Plan), under which the Company has reserved 4 million shares of Class A Stock, permitting the granting of options to all employees, officers and directors. The 2000 Plan was approved by the Board of Directors of Ampal (the Board) at the meeting held on March 27, 2000 and was approved by a majority of the Company's shareholders at the June 29, 2000 annual meeting of shareholders. The plan remains in effect for a period of ten years. As of December 31, 2008, 2,921,000 options under the 2000 Plan are outstanding.

The option term is for a period of ten years from the grant date for the options granted under the 2000 Plan. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. These options were granted for no consideration.

The options granted under the 2000 Plan (collectively, the Plans) may be either incentive stock options, at an exercise price to be determined by the Stock Option Compensation Committee (the Committee) but not less than 100% of the fair market value of the underlying options on the date of grant, or non-incentive stock options, at an exercise price to be determined by the Committee. The stock options granted under the plans were granted either at market value or above. Under the Plans, the Committee may also grant, at its discretion, restricted stock, dividend equivalent awards, which entitle the recipient to receive dividends in the form of Class A Stock, cash or a combination of both and stock appreciation rights, which permit the recipient to receive an amount in the form of Class A Stock, cash or a combination of both, equal to the number of shares of Class A Stock with respect to which the rights are exercised multiplied by the excess of the fair market value of the Class A Stock on the exercise date over the exercise price. During 2008, no such compensation instruments were granted by the Committee.

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Under each of the Plans, all granted but unvested options become immediately exercisable upon the occurrence of a change in control of the Company.

The weighted average grant date fair value of options granted during 2008, 2007 and 2006 was 0.477, 2.273 and 2.366, respectively.

On December 8, 2008, Ampal's Stock Option and Compensation Committee and its Board of Directors approved the repricing of outstanding options to purchase, in the aggregate, 2,270,000 shares of Ampal's Class A Stock, which were previously granted to ten of the Company's current employees, executive officers and directors pursuant to Ampal's 2000 Incentive Plan. The outstanding options had been originally issued with exercise prices ranging from \$3.12 to \$5.35 per share, which represented the then current market prices of Class A Stock on the dates of the original grants. The repricing was effected by canceling the outstanding options, and granting to each holder of cancelled outstanding options a new option, with a 10 year term, to purchase the total number of shares of Class A Stock underlying such cancelled outstanding options, at an exercise price equal to \$1.17 per share, the closing price of Class A Stock on NASDAQ on December 5, 2008, the most recent closing price prior to the approval by the Board of Directors and the Compensation Committee. The repriced options maintain the vesting schedule of the cancelled outstanding options.

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The following table summarizes the activity of both Plans for the years 2008, 2007 and 2006 respectively:

	Options (in thousands)	Weighted- Average Exercise Price (U.S. Dollars)	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value U.S. Dollars in (thousands)
Outstanding at January 1, 2008	2,434	\$ 1.43*		
Granted at fair value	580	\$ 1.17		
Exercised	(89)	\$ 3.31		
Forfeited	(4)	\$ 3.50		
Expired	-	\$ -		
<hr/>				
Outstanding at December 31, 2008	2,921	\$ 1.53	7.13	(2,470)
Exercisable at December 31, 2008	1,815	\$ 1.26	5.57	(1,227)
* After repricing,				
	Options (in thousands)	Weighted- Average Exercise Price (U.S. Dollars)	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value U.S. Dollars in (thousands)
Outstanding at January 1, 2007	2,164	\$ 3.83		
Granted at fair value	270	\$ 5.35		
Exercised	-	\$ -		
Forfeited	-	\$ -		
Expired	-	\$ -		
<hr/>				
Outstanding at December 31, 2007	2,434	\$ 4.00	7.15	8,251
Exercisable at December 31, 2007	1,433	\$ 3.49	6.0	5,589

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	<u>Options (in thousands)</u>	<u>Weighted- Average Exercise Price (U.S. Dollars)</u>	<u>Weighted- Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value U.S. Dollars in (thousands)</u>
Outstanding at January 1, 2006	2,024	\$ 3.37		
Granted at fair value	630	\$ 5.06		
Exercised	(176)	\$ 3.12		
Forfeited	(284)	\$ 3.50		
Expired	(30)	\$ 5.94		
<hr/>				
Outstanding at December 31, 2006	2,164	\$ 3.83	7.70	2,078
Exercisable at December 31, 2006	1,111	\$ 3.24	6.26	1,644

Valuation and Expenses under 123R

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted below. The company developed an expected option term assumption based on exercise patterns of the company. Expected volatility is based on the historical volatility of the Class A common stock. The risk free rate is based on the U.S. Treasury yield curve for a term consistent with the expected life of the award, in effect at the date of grant.

The fair value of options granted during the years ended December 31, 2008, 2007 and 2006 were estimated using the following weighted average assumptions: (1) expected life of options of 5, 6 and 6 years, respectively; (2) dividend yield of 0%; (3) volatility of 44.06%, 35.64% and 41.11%, respectively; and (4) risk free interest of 1.86%, 4.30% and 4.42%, respectively.

Total stock-based compensation expense recognized under SFAS No. 123R, was approximately \$1,365,000 and \$783,000 for the years 2008 and 2007, respectively. No share-based compensation was capitalized in the consolidated financial statements.

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The total intrinsic value (market value on date of exercise less exercise price) of options exercise during 2006 and 2008 was \$260,000 and \$12,000 respectively.

At December 31, 2008, there was \$2.39 million of total unrecognized, pre-tax compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted-average period of approximately four years. The Company settles employee stock options exercises primarily with newly issued common shares and occasionally with treasury shares.

Note 14 Earnings (Loss) Per Class A Share

Basic net loss per share is computed by dividing net loss after deduction of preferred stock dividends by the weighted-average number of common stock shares outstanding for the period. In 2008, 2007 and 2006, all outstanding stock options and preferred shares have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for these periods presented. Also, participating 4% Convertible Preferred Stock were not taken into account in the computation of the basic EPS in the period in which it was outstanding since its shareholders did not have contractual obligation to share in the losses of the Company. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per share follows (in thousands, except per share amounts):

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net loss from continuing operations	(16,711)	(13,578)	(6,027)

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	Year Ended December 31,		
	2008	2007	2006
Less: preferred stock dividend	-	-	(2,438)
Net loss from continuing operations	(16,711)	(13,578)	(8,465)
Net income (loss) from discontinued operations	-	21,344	(1,060)
	(16,711)	7,766	(9,525)
Weighted average class A shares outstanding	57,707	51,362	24,109
Basic and diluted net income (loss) per share:			
Loss from continuing operations	(0.29)	(0.26)	(0.35)
Discontinued operations	-	0.42	(0.05)
Basic and diluted	\$ (0.29)	\$ 0.16	\$ (0.40)

The following table summarized securities that were not included in the calculations of diluted earnings per class A shares for the years ended December 31, 2008, 2007 and 2006 because such shares are anti-dilutive.

	Year ended December 31,		
	2008	2007	2006
	(Shares in thousands)		
Options and Rights	2,921	2,434	2,164
6-1/2% Preferred Stock	-	-	-
4% Preferred Stock	-	-	-
Warrants	-	-	4,071
Promissory note	-	-	4,476

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Note 15 Income Taxes

	Fiscal Year Ended December 31,		
	2008	2007	2006
	(U.S. Dollars in thousands)		
The components of income tax expense (benefit) are:			
Continuing operations	(6,526)	(5,625)	2,585
Discontinued operations	-	7,651	146
	(6,526)	2,026	2,731

The components of current and deferred income tax expense (benefit) are:

Current:			
Federal	\$ -	\$ -	\$ -
Foreign	(164)	269	308
Deferred:			

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	Fiscal Year Ended December 31,		
State and local	-	-	-
Federal	(4,333)	(7,757)	2,464
Foreign	(2,029)	1,863	(187)
Total	\$ (6,526)	\$ (5,625)	\$ 2,585

The domestic and foreign components of income (loss) before income taxes and minority are:

Domestic	\$ (9,055)	\$ 845	\$ (4,855)
Foreign	(12,872)	(18,472)	1,491
Total	\$ (21,927)	\$ (17,627)	\$ (3,364)

A reconciliation of income taxes between the statutory and effective tax is as follows:

Federal income tax (benefit) at 34%	\$ (7,424)	\$ (5,993)	\$ (1,596)
Taxes on foreign Gain (Loss) below U.S. rate	2,569	(873)	4,912
Change in unrecognized tax benefits (expense)	(4,196)	2,803	-
Changes in valuation allowance	1,938	(1,913)	(446)
Other	586	351	(285)
Total effective tax: 29.9%; 31.9% and 76.8%	\$ (6,526)	\$ 5,625	\$ 2,585

	As of December 31,	
	2008	2007
Deferred tax assets:		
The components of deferred tax assets and liabilities are as follows:		
Net operating loss and capital loss carryforwards	\$ 42,612	\$ 27,875
Unrealized losses on investments	700	700
Foreign tax credits carryforwards	5,920	7,536
Total deferred assets	49,232	36,111
Valuation allowance	(26,413)	(24,474)
Net deferred tax assets	22,819	11,637
Deferred tax liabilities:		
Tax on equity in earnings of affiliates	-	73
Unrealized gain from securities	2,140	-
Depreciation and amortization	3,825	3,202
Total deferred tax liability	5,965	3,275
Net deferred tax assets	\$ 16,854	\$ 8,362

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As a result of the adoption by the Company of FIN 48, on January 1, 2007, the Company recognized, as a cumulative effect of change in accounting principle, a \$2 million increase in its liability for unrecognized tax benefits, which was accounted for as a decrease in the January 1, 2007 balance of retained earnings. Furthermore, the Company recognized an increase in deferred tax assets of approximately \$2.0 million, which was accounted for as an increase in the January 1, 2007 balance of retained earnings. during 2008 the company released a FIN 48 liability at the amount of \$2.0 million due the laps of statute of limitations.

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The following table summarizes the activity related to the Company's unrecognized tax benefit liability:

	U.S. dollars in thousands	
	2008	2007
Balance at the beginning of the year	\$ 4,803	\$ 2,000
Increases related to previous years tax positions	-	2,803
Expiration of the statute of limitations for the assessment of taxes	(4,196)	-
Balance at the end of the year	\$ 607	\$ 4,803

All of the Company's unrecognized tax benefit liability would affect the Company's effective tax rate if recognized. Because of the existence of net operating loss carryforwards, the resultant unfavorable resolution of any of the Company's uncertain tax positions would not result in the imposition of interest or penalties. Accordingly, the Company did not record any interest or penalties related to the unrecognized tax benefit liability. The Company does not expect its unrecognized tax benefit liability to change significantly over the next 12 months.

A summary of open tax years by major jurisdiction is presented below:

Years:	Jurisdiction:
2005-2008	Israel
2007-2008	United States ⁽¹⁾

(1) Includes federal, state, and provincial (or similar local jurisdictions) tax positions.

As of December 31, 2008, valuation allowance is provided against tax benefits on foreign net operating loss carryforwards of \$26.4 million.

As of December 31, 2008, the Company has foreign tax credits of \$5.9 million that will expire in the years 2009 through 2014.

As of December 31, 2008, the Company has U.S. Federal net operating loss carryforwards of approximately \$27.3 million that will expire in the years 2024 through 2028. The utilization of net operating loss carryforwards may be subject to substantial annual limitations if there has been a significant change in ownership. Such a change in ownership, as described in Section 382 of the Internal Revenue Code, may substantially limit the Company's utilization of the net operating loss carryforwards.

Note 16 Discontinued operations

On August 5, 2007 the Company completed the sale of Am-Hal. Am-Hal was a wholly owned subsidiary which owns and operates a chain of senior citizens facilities located in Israel. Accordingly, Am-Hal has been reported as a discontinued operation for all periods presented.

Summary income statement and condensed balance sheet information for Am-Hal is set forth below.

Am-Hal

	Six Months Ended June 30, 2007	Year Ended December 31, 2006
	(U.S. Dollars in thousands)	
Real estate income	\$ 4,965	\$ 9,405
Pre-tax income (loss) from discontinued operations	\$ (521)	\$ (1,331)
Income tax expense	45	146
After -tax gain (loss) from discontinued operations	(566)	(1,477)
Minority interest	149	417
Income (loss) from discontinued operations, net of income taxes	(417)	(1,060)

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Note 17 Investments in Affiliates

The companies accounted for by the equity method and the Company's share of equity in those investees are:

	As of December 31,	
	2008	2007
	%	%
Bay Heart Ltd.	37	37
Carmel Containers Systems Ltd.	-	-
Chemtankers Management B.V.	-	50
Conmart Ltd.	50	50
Global Wind Energy	50	50
Hod Hasharon Sport Center (1992) Limited Partnership	-	50
Temco International Ltd.	50	50
Trinet Investment in High-Tech Ltd.	37.5	37.5
Trinet Venture Capital Ltd.	50	50

Combined summarized financial information for the above companies is as follows:

	Fiscal Year Ended December 31,		
	2008	2007	2006
	(U.S. Dollars in thousands)		
Revenues	\$ 23,832	\$ 22,326	\$ 100,567
Gross profit	1,630	2,577	12,707
Net income (Loss)	(6,103)	(3,745)	57

	As of December 31,	
	2008	2007
	(U.S. Dollars in thousands)	

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	As of December 31,	
Property and equipment	\$ 69,918	\$ 49,059
Other assets	12,184	40,915
Total assets	\$ 82,102	\$ 89,974
Total liabilities, including bank borrowings	\$ 109,839	\$ 93,041

Note 18 Operating Segments Information

SFAS 131 Disclosure about Segments of an Enterprise and Related Information establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. Segment information presented below results primarily from operations in Israel.

The chemical segment consists of the investment in Gadot, an Israeli Company, which operate in distribution and marketing of liquid chemicals for raw materials used in the chemical industry.

The energy segment consists of the investment in EMG, an Egyptian Joint Stock Company, which holds the right to supply natural gas to Israel through a pipe line to be constructed from Egypt to Israel and GWE, a joint venture that focus on the new development and acquisition of controlling interests in renewable energy.

The real estate rental segment consisted of rental property owned in Israel and the United States leased to unrelated parties, and operations of Am-Hal Ltd., The real estate owned by the Company was sold in September 2006 and on August 5, 2007, the Company sold all of its interest in Am-Hal (see note 3).

The leisure-time segment consists of Kfar Saba, the Company's 51%-owned subsidiary located in Israel. In June 2006, the Company sold all of its interest in Coral World International Limited (see Note 3).

The finance segment consists of all other activity which is not part of the above segments.

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	Fiscal Year Ended December 31,		
	2008	2007	2006
	(U.S. Dollars in thousands)		
Revenues:			
Chemical income	\$ 535,424	\$ 31,922	\$ -
Finance	19,852	4,867	4,203
Real estate income	-	-	2,423
Leisure-time	2,770	2,531	6,317
Intercompany adjustments	-	-	(9)
	558,046	39,320	12,934
Equity in earning of affiliates	(1,409)	(1,523)	1,610
	556,637	37,797	14,544
Total	\$ 556,637	\$ 37,797	\$ 14,544

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	Fiscal Year Ended December 31,		
	2019	2018	2017
Equity in Earnings (losses) of Affiliates:			
Finance	\$ (583)	\$ 57	\$ 566
Chemical income	1,599	(258)	
Real estate	(2,501)	(1,535)	(676)
Leisure-time	76	213	1,720
Others	-	-	-
	(1,409)	(1,523)	1,610
Total	\$ (1,409)	\$ (1,523)	\$ 1,610
Interest Income:			
Finance	\$ 4,522	\$ 3,954	\$ 1,479
Interest Expense:			
Finance	\$ 33,049	\$ 9,783	\$ 4,248
Chemical	7,834	148	-
Leisure-time	260	191	83
Intercompany adjustments	-	-	(3)
	41,143	10,122	4,328
Total	\$ 41,143	\$ 10,122	\$ 4,328
Pretax Operating (Loss) Income:			
Finance	\$ (18,599)	\$ (20,349)	\$ (11,529)
Chemical income	(1,844)	4,134	
Real estate	-	-	2,151
Leisure-time	15	111	4,404
	(20,428)	(16,104)	(4,974)
Equity in earning of affiliates	(1,409)	(1,523)	1,610
	(21,837)	(17,627)	(3,364)
Total	\$ (21,837)	\$ (17,627)	\$ (3,364)
Income (Benefit) Tax Expense:			
Finance	\$ (6,757)	\$ (6,790)	\$ 2,518
Chemical income	286	1,099	
Real estate	-	-	-
Leisure-time	(55)	66	67
	(6,526)	(5,625)	2,585
Total	\$ (6,526)	\$ (5,625)	\$ 2,585
Net Income from continuing operation			
Finance	\$ (12,424)	\$ (13,502)	\$ (13,481)
Chemical income	(531)	2,777	
Real estate	(2,501)	(1,535)	1,475
Leisure-time	145	258	6,057
Others	-	-	-
	(15,311)	(12,002)	(5,949)
Minority interest, net	(1,400)	(1,576)	(78)
	(16,711)	(13,578)	(6,027)
Total	\$ (16,711)	\$ (13,578)	\$ (6,027)
Total Assets for year end:			
Finance	\$ 527,102	\$ 404,016	\$ 330,548
Energy	361,323	361,323	259,860

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	Fiscal Year Ended December 31,		
Chemicals	378,154	336,024	-
Real estate	-	-	76,513
Leisure-time	2,652	2,964	2,874
Intercompany adjustments	(333,314)	(329,538)	(268,112)
Total	\$ 935,917	\$ 774,789	\$ 401,683
Investments in Affiliates for year end:			
Finance	\$ 19	\$ 19	\$ 3,498
Chemical	6,030	8,924	
Real estate	5,598	(325)	(2,574)
Leisure-time	-	397	357
Total	\$ 11,647	\$ 9,015	\$ 1,281
Capital Expenditures:			
Chemicals	\$ 39,256		
Finance	3,050	\$ 43	\$ 28
Real estate	-	1,050	1,300
Leisure-time	103	85	102
Total	\$ 42,408	\$ 1,178	\$ 1,430
Depreciation and Amortization:			
Finance	\$ 559	\$ 810	\$ 66
Chemical income	12,162	269	
Real estate	-	-	90
Leisure-time	210	340	186
Total	\$ 12,931	\$ 1,419	\$ 342

Corporate office expense is principally applicable to the financing operation and has been charged to that segment above. Revenues and pretax operating gain above exclude equity in earnings of affiliates.

Note 19 Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(a) Cash and Cash Equivalents

For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value (see Note 1(o)).

(b) Deposits, Notes and Loans Receivable

The fair value of these deposits, notes and loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

(c) Investments

For financial instruments with maturities between 91 days and 1 year, and all marketable securities, the carrying amount is a reasonable estimate of fair value.

(d) Financial Instruments

The fair value of the financial instruments included in other assets, accounts payable, and accrued expenses presented at a fair value.

(e) Commitments

Due to the relatively short term of commitments discussed in "Note 18", the contract value is considered to be at fair value.

(f) Financial Assets and Financial Liabilities

The fair value of notes and loans payable, deposits payable and debentures outstanding is estimated by discounting the future cash flows using the current rates offered by lenders for similar borrowings with similar credit ratings and for the same remaining maturities. Capital notes in the amount of \$96.4 million that were issued to IIF have no maturity date, bear no interest and are not linked to any index. Assuming maturity dates of 5 and 10 years, the fair value of those capital notes for such dates will be \$70 million and \$50.9 million, respectively.

	As of December 31,			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(U.S. Dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$ 68,682	\$ 68,682	\$ 44,267	\$ 44,267
Deposits, notes and loans receivable	58,968	56,629	17,475	17,072
Investments	52,859	52,859	22,459	22,459
	<u>\$ 180,509</u>	<u>\$ 178,170</u>	<u>\$ 84,201</u>	<u>\$ 83,798</u>
Financial liabilities:				
Notes and loans payable	\$ 379,732	\$ 367,521	\$ 228,718	\$ 227,226
Debentures outstanding	216,724	210,311	79,696	80,802
	<u>\$ 596,456</u>	<u>\$ 577,831</u>	<u>\$ 308,414</u>	<u>\$ 308,028</u>

Note 20 Commitments and Contingencies

- (a) The combined minimum annual lease payments on Ampal's corporate offices in New York and in Israel and its subsidiary Country Club Kfar Saba Ltd. in 2008 were \$0.8 million. The lease of the corporate office in New York expires in 2009, the lease of the office in Herzelia Pituach expires in 2016 and the Kfar Saba lease expires in 2038. In the years 2009-2013, the combined annual lease payments on those premises will be in an aggregate amount of \$3.0 million, and thereafter, an amount totaling \$6.8 million.

In 2008 the Company paid annual lease payments of \$14.9 million. In the years 2009-2013, the combined annual lease payments on those premises will be in an aggregate amount of \$53.2 million.

- (b) As of December 31, 2008, Gadot leases seven vessels, with an aggregate loading capability of approximately 87,000 tons. The lease period for four of the vessels is until 2011, out of which one vessel purchase option has been declared to be exercised during 2009. The lease period for additional three of the vessels shall expire during 2009 with an option to extend the time-charter terms for two additional years (1+1). An additional leased vessel (eight in number) was returned to owner during October 2008.

The aggregate lease fees for the eight leased vessels in 2008 amounted to \$34 million. In 2009, the lease payments are expected to amount to approximately \$24.8 million and are expected to decrease to \$9.9 million for the year 2010 and thereafter are expected to decrease to \$6.4 million.

Gadot has contracted a shipyard for the construction of four additional vessels built with a loading capability of 17,500 each, for a consideration of approximately \$29 million per vessel. These vessels will be delivered during 2010 and 2011.

- (c) The combined minimum annual lease payments of Gadot's offices and other land used in its operations is expected to amount to approximately \$16.5 million.
- (d) Gadot leases a 17,000 square meter storage tank facility located in the northern bank of the Kishon port in Haifa from the port authority. The lease expires in 2022. Gadot also leases an additional 56,000 square meter area from the port authority located in the southern terminal of the Kishon port in Haifa in connection with its storage and loading services. This lease expires in 2014. Gadot also owns an additional 20,000 square meters area adjacent to the northern terminal, serving as its Israeli logistics facility and for its analytical and quality assurance laboratory. The lease payments for the land utilized by the northern and southern terminals in 2008 was approximately \$3.2 million. These lease fees are calculated according to the amount of space utilized by Gadot and by the amount and type of materials transported. Gadot has provided the port authority with bank guarantees in the amount of approximately \$1.9 million, linked to the Israeli Consumer Price Index, in order to secure payments under these leases.
- (e) Gadot grants senior employees that are not interested parties performance bonuses in addition to their monthly salary. These bonuses are calculated as a percentage of profits, ranging between 5% and 8%.
- (f) One of Gadot's subsidiaries is party to an agreement from October 2005 to receive consulting, management and operating services from a former minority shareholder for a period of 5 years, in consideration of approximately \$62,400 per month. The agreement expires at October 2009.
- (g) The Company has issued guarantees on bank loans to its investees and subsidiaries totaling \$67.4 million as follows:
- (1) The Company provided a \$8.1 million guarantee on indebtedness incurred by Bay Heart.
 - (2) The Company provided a \$1.1 million guarantee to Galha (1960) Ltd (Galha), for the payment of the Company's subsidiary of a final judgment, if entered against the Company's subsidiary. (See below)
 - (3) \$58.2 million guarantees of Gadot for outstanding loans.
- (h) The Company made a commitment to invest \$2.8 million in Star II (2000) L.P.
- (i) Legal Proceedings:
- (1) On January 1, 2002, Galha filed a suit against the Company and other parties, including directors of Paradise Industries Ltd. (Paradise) appointed by the Company, in the Tel Aviv District Court, in the amount of NIS 11,560,000 (\$3 million). Galha claimed that the Company, which was a shareholder of Paradise, and another shareholder of Paradise, misused funds that were received by Paradise from an insurance company for the purpose of reconstructing an industrial building owned by Galha and used by Paradise which burnt down. Paradise is currently involved in liquidation proceedings. Ampal issued

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a guarantee in favor of Galha for the payment of an amount of up to NIS 4,172,000 (\$1,085,000) if a final judgment against the Company will be given.

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- (2) On May 26, 2003, the Company and the directors of Paradise appointed by the Company filed a third party claim against ArieH Israeli Insurance Company Ltd. in the Tel Aviv District Court claiming that, to the extent the court decides that the directors of Paradise appointed by the Company will have to pay any amounts to Galha, ArieH will pay such amounts on behalf of the directors in accordance with the Directors and Officers insurance policy that the Company had at that time with ArieH. ArieH filed a statement of defense and stated that the policy does not cover the claim. The dispute was submitted to mediation. In the mediation procedure the parties arrived to an agreement that was approved as a judgment of the Tel Aviv District Court on January 13, 2009. According to the judgment Ampal paid the Plaintiffs an amount of NIS 834,200 (\$219,411), ArieH paid an amount of \$150,000 and a third defendant paid an amount of NIS 135,800 (\$35,718). The judgment stated that claim was declined against all Defendants and the guarantee Ampal issued in favor of the Galha was cancelled.
- (3) Gadot has received third party notices in a number of lawsuits regarding pollution of the Kishon River in Israel. These lawsuits have been filed by various claimants who were harmed by the polluted water of the river, including soldiers from various units in the Israeli Defense Forces who trained in the river, fishermen who fished in the river, the Haifa rowing club and industrial companies that use the river. Some of the lawsuits are claims for monetary damages (some of the claims are unlimited in amount; one is for approximately \$6 million) and some are for injunctions against further pollution of the river. Gadot denies liability in all these claims and has filed statements of defense for each claim.
- (4) Part of Gadot's storage tank facility is leased from the Haifa port authority. In 2001 the port authority requested that Gadot participate in an offer to find a consultant to examine ground contamination in the area surrounding the facility. Gadot has responded, denying the existence of ground contamination and, in any case, that it is the source of such contamination. Gadot believes that if there is contamination, its source is the contaminated waters of the Kishon River or the Mediterranean Sea.

BAY HEART LTD.

FINANCIAL STATEMENTS - CONSOLIDATED AND COMPANY

AS OF DECEMBER 31, 2006

BAY HEART LTD.

FINANCIAL STATEMENTS - CONSOLIDATED AND COMPANY

AS OF DECEMBER 31, 2006

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
BAY HEART LTD.

We have audited the accompanying balance sheets of Bay Heart Ltd. (the Company) as of December 31, 2006 and 2005, and the consolidated balance sheets as of those dates, and the related statements of operations, changes in shareholders' deficiency and cash flows of the Company and on a consolidated basis for each of the three years in the period ended December 31, 2006. 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 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and on a consolidated basis as of December 31, 2006 and 2005, and the results of operations, changes in shareholders' deficiency and cash flows of the Company and on a consolidated basis for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in Israel.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. With respect to these financial statements, the difference in the application of the latter is described in Note 19.

As described in Note 2A, the financial statements are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board.

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The condensed consolidated financial information in U.S. dollars presented in Note 18 to the financial statements, prepared at the request of an investor, represents a translation of the Company's financial statements in nominal values, as stated in Note 18A. In our opinion, such translation into U.S. dollars was appropriately performed on the basis stated in Note 18A.

As described in Note 1C to the financial statements regarding the Company's business condition, the Company has ongoing losses, a working-capital deficit, shareholders' deficiency and negative cash flows from operating activities. As stated in that note, the continuance of the Company's operations and its ability to satisfy its short-term liabilities is contingent upon the attainment of financing from the shareholders and/or bank financing arrangements.

Brightman Almagor & Co.
 Certified Public Accountants
 Member firm of Deloitte Touche Tohmatsu

Haifa, Israel, February 6, 2007.

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BAY HEART LTD.
CONSOLIDATED BALANCE SHEETS
 (in thousand NIS)

	Note	December 31,	
		2006	2005
		Reported amount	Reported amount
Current assets	3		
Cash and cash equivalents		2,702	81
Trade accounts receivable		2,229	2,567
Other receivables and current assets		688	2,020
		<u>5,619</u>	<u>4,668</u>
Investments, loans and long-term receivables	4	2,397	347
Fixed assets, net	5	164,470	156,251
Other assets, net	6	2,337	2,822
		<u>174,823</u>	<u>164,088</u>
Current liabilities	7		
Short-term bank borrowings		25,853	19,092
Trade accounts payable		2,455	4,184
Other payables and current liabilities		4,997	4,264
		<u>33,305</u>	<u>27,540</u>
Long-term liabilities			
Bank loans	8	135,511	143,278
Due to interested parties	9	53,768	33,319
Tenant deposits		545	532
		<u>189,824</u>	<u>177,129</u>

		<u>December 31,</u>	
Commitments and contingent liabilities	11		
Shareholders' deficiency	12	(48,306)	(40,581)
		<u>174,823</u>	<u>164,088</u>

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

Nitzan Ariel
Chief Executive Officer

Uri Dori
Chairman of the Board

Anat Nursella
Controller

Approval date of the financial statements: February 6, 2007

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BAY HEART LTD.
BALANCE SHEETS - COMPANY
(in thousand NIS)

		<u>December 31,</u>	
		<u>2006</u>	<u>2005</u>
	<u>Note</u>	<u>Reported amount</u>	<u>Reported amount</u>
Current assets			
Cash and cash equivalents	3	2,670	36
Trade accounts receivable		2,225	2,563
Other receivables and current assets		600	2,036
		<u>5,495</u>	<u>4,635</u>
Investments, loans and long-term receivables	4	16,815	11,184
Fixed assets, net	5	149,272	144,428
Other assets	6	2,337	2,822
		<u>173,919</u>	<u>163,069</u>
Current liabilities	7		
Short-term bank borrowings		25,648	18,902

		December 31,	
		2006	2005
Trade accounts payable		2,455	4,184
Other payables and current liabilities		4,902	4,245
		<u>33,005</u>	<u>27,331</u>
Long-term liabilities			
Bank loans	8	134,941	142,501
Due to interested parties	9	53,734	33,286
Tenant deposits		545	532
Accrued severance pay, net	10	-	-
		<u>189,220</u>	<u>176,319</u>
Commitments and contingent liabilities	11		
Shareholders' deficiency	12	(48,306)	(40,581)
		<u>173,919</u>	<u>163,069</u>

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

BAY HEART LTD.
STATEMENTS OF OPERATIONS - CONSOLIDATED
(in thousand NIS)

		Year ended December 31,		
		2006	2005	2004
		Reported amount	Reported amount	Reported amount
	Note	2006	2005	2004
Revenues	13A	18,129	15,172	15,812
Operating expenses	13B	13,364	12,602	13,104
Gross profit		4,765	2,570	2,708
General and administrative expenses	13C	2,757	(2,846)	2,867
Operating income (loss)		2,008	(276)	(159)
Financing expenses, net	13D	9,733	14,526	9,308

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		Year ended December 31,		
Loss after financing expenses, net		(7,725)	(14,802)	(9,467)
Other expenses, net	13E	-	(923)	(9,411)
Loss for the year		<u>(7,725)</u>	<u>(15,725)</u>	<u>(18,878)</u>
Loss per share (in NIS)				
Loss per share of NIS 1.00 par value		<u>(1.65)</u>	<u>(3.37)</u>	<u>(4.04)</u>
Number of shares used in above computation		<u>4,672,732</u>	<u>4,672,732</u>	<u>4,672,732</u>

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

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BAY HEART LTD.
STATEMENTS OF OPERATIONS - COMPANY
(in thousand NIS)

		Year ended December 31,		
		2006	2005	2004
		Reported amount	Reported amount	Reported amount
	Note			
Revenues	13A	17,730	14,784	15,276
Operating expenses	13B	<u>13,327</u>	<u>12,565</u>	<u>13,067</u>
Gross profit		4,403	2,219	2,209
General and administrative expenses	13C	<u>2,733</u>	<u>2,824</u>	<u>2,834</u>
Operating income (loss)		1,670	(605)	(625)
Financing expenses, net	13D	<u>9,151</u>	<u>13,636</u>	<u>8,514</u>
Loss after financing expenses, net		(7,481)	(14,241)	(9,139)
Other expenses, net	13E	<u>-</u>	<u>(923)</u>	<u>(9,411)</u>

	<u>Year ended December 31,</u>		
Loss before share in losses of subsidiary	(7,481)	(15,164)	(18,550)
Share in losses of subsidiary	(244)	(561)	(328)
Loss for the year	<u>(7,725)</u>	<u>(15,725)</u>	<u>(18,878)</u>
Loss per share (in NIS)			
Loss per share of NIS 1.00 par value	<u>(1.65)</u>	<u>(3.37)</u>	<u>(4.04)</u>
Number of shares used in above computation	<u>4,672,732</u>	<u>4,672,732</u>	<u>4,672,732</u>

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

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BAY HEART LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(in thousand NIS)

	<u>Share capital</u>	<u>Deficit</u>	<u>Total</u>
Balance - January 1, 2004	20,099	(26,077)	(5,978)
Activity during 2004 (Reported amounts):			
Loss for the year	<u>-</u>	<u>(18,878)</u>	<u>(18,878)</u>
Balance - December 31, 2004	20,099	(44,955)	(24,856)
Activity during 2005 (Reported amounts):			
Loss for the year	<u>-</u>	<u>(15,725)</u>	<u>(15,725)</u>
Balance - December 31, 2005	20,099	(60,680)	(40,581)
Activity during 2006 (Reported amounts):			
Loss for the year	<u>-</u>	<u>(7,725)</u>	<u>(7,725)</u>
Balance -December 31, 2006	<u>20,099</u>	<u>(68,405)</u>	<u>(48,306)</u>

Share
capital

Deficit

Total

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

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BAY HEART LTD.
STATEMENTS OF CASH FLOWS - CONSOLIDATED
(in thousand NIS)

	Year ended December 31,		
	2006	2005	2004
	Reported amount	Reported amount	Reported amount
CASH FLOWS - OPERATING ACTIVITIES			
Loss for the year	(7,725)	(15,725)	(18,878)
Adjustments required to present cash flows from operating activities (Appendix A)	4,514	10,644	13,098
Net cash used in operating activities	(3,211)	(5,081)	(5,780)
CASH FLOWS - INVESTING ACTIVITIES			
Additions to fixed assets	(12,236)	(11,483)	(837)
Investments in long-term loan	(2,050)	-	-
Investments in other assets	-	33	(39)
Net cash used in investing activities	(14,286)	(11,450)	(876)
CASH FLOWS - FINANCING ACTIVITIES			
Receipt of long-term liabilities from interested parties	20,757	11,094	4,077
Repayment of long-term bank loans	(6,977)	(4,876)	(8,357)
Short-term bank borrowings, net	6,338	10,346	10,958
Net cash provided by financing activities	20,118	16,564	6,678
Increase in cash and cash equivalents	2,621	33	22
Cash and cash equivalents at the beginning of the year	81	48	26
Cash and cash equivalents at the end of the year	2,702	81	48

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

BAY HEART LTD.
STATEMENTS OF CASH FLOWS - CONSOLIDATED
(in thousand NIS)

	Year ended December 31,		
	2006	2005	2004
	Reported amount	Reported amount	Reported amount
Appendix A: <u>Adjustment required to present cash flows from operating activities</u>			
Income and expenses not involving cash flows:			
Depreciation and amortization	4,502	3,914	4,136
Adjustment (erosion) of long-term liabilities	(675)	4,925	741
Provision for impairment of assets	-	923	9,411
Changes in accrued severance pay, net	-	(5)	(5)
	3,827	9,757	14,283
Changes in assets and liabilities:			
Decrease in trade accounts receivable	338	(551)	117
Decrease (increase) in other receivables and current assets	1,332	(1,369)	(358)
Increase (decrease) in trade accounts payable	(1,729)	2,284	(625)
Increase (decrease) in other payables current liabilities	733	837	(347)
Increase (decrease) in tenant deposits	13	(314)	28
	687	887	(1,185)
	4,514	10,644	13,098
Appendix B: <u>Non-cash transactions</u>			
Conversion of long-term loans into short term loans	-	101,998	-
	-	101,998	-

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

BAY HEART LTD.
STATEMENTS OF CASH FLOWS - COMPANY
(in thousand NIS)

	Year ended December 31,		
	2006	2005	2004
	Reported amount	Reported amount	Adjusted amount
CASH FLOWS - OPERATING ACTIVITIES			
Loss for the year	(7,725)	(15,725)	(18,878)
Adjustments required to present cash flows from operating activities (Appendix A)	4,337	10,447	12,720
Net cash used in operating activities	(3,388)	(5,278)	(6,158)
CASH FLOWS - INVESTING ACTIVITIES			
Additions to fixed assets	(8,823)	(11,483)	(358)
Investment in joint venture	(5,462)	-	-
Other assets	-	33	(39)
Net cash used in investing activities	(14,285)	(11,450)	(397)
CASH FLOWS - FINANCING ACTIVITIES			
Receipt of long-term liabilities from interested parties	20,757	11,094	4,070
Repayment of long-term bank loans	(6,788)	(4,701)	(8,462)
Short-term bank borrowings, net	6,338	10,346	10,958
Net cash provided by financing activities	20,307	16,739	6,566
Increase in cash and cash equivalents	2,634	11	11
Cash and cash equivalents at the beginning of the year	36	25	14
Cash and cash equivalents at the end of the year	2,670	36	25

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

BAY HEART LTD.
STATEMENTS OF CASH FLOWS - COMPANY
(in thousand NIS)

	Year ended December 31,		
	2006	2005	2004
	Reported amount	Reported amount	Reported amount

Year ended December 31,

Appendix A: Adjustment required to present cash flows provided by operating activities**Income and expenses not involving cash flows:**

Depreciation and amortization	4,464	3,877	4,073
Adjustment (erosion) of long-term liabilities	(673)	4,895	627
Provision for impairment of assets	-	923	9,411
Erosion in respect of a capital note issued to the Subsidiary	(413)	(613)	(622)
Changes in accrued severance pay	-	(5)	(5)
Company's equity in losses of the Subsidiary	244	561	328
	<u>3,622</u>	<u>9,638</u>	<u>13,812</u>

Changes in assets and liabilities:

Decrease (increase) in trade accounts receivable	338	(554)	124
Decrease (increase) in receivables and other current assets	1,436	(1,445)	(269)
Increase (decrease) in trade accounts payable	(1,729)	2,284	(625)
Increase (decrease) in payables and other current liabilities	657	838	(350)
Increase (decrease) in tenant deposits	13	(314)	28
	<u>715</u>	<u>809</u>	<u>(1,092)</u>
	<u>4,337</u>	<u>10,447</u>	<u>12,720</u>

Appendix B: Non-cash transactions

Conversion of long-term loans into short-term loans	-	101,998	-
	<u>-</u>	<u>101,998</u>	<u>-</u>

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

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 1 General**A. Activity**

Bay Heart Ltd. is a private company which owns a shopping center (the Mall) located in Haifa bay, known as Lev Hamifratz . The Subsidiary has been engaged since its inception in the planning and construction of a commercial-center project near the Mall (see Note 11B).

B. Definitions

The Company Bay Heart Ltd.

The Subsidiary Bay Heart Properties (1994) Ltd. (wholly owned).

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Proportionally Consolidated joint venture	a jointly controlled partnership, whose financial statements are proportionally consolidated in the Company's financial statements.
Interested party	as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.
Related parties	as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel.
Controlling shareholder	as defined in the Israeli Securities Regulations (Disclosure of Transactions Between a Company and its Controlling Shareholders in the Financial Statements), 1996.
CPI	the Israeli consumer-price index.

C. Company's business condition

- (1) At December 31, 2006 the Group had ongoing losses, a working capital deficit of NIS 27.6 million mainly due to short-term bank borrowings and the Company also had a shareholders' deficiency of NIS 48.3 million. In addition, for the year ended December 31, 2006 the Group had losses in the amount of NIS 7.7 million and negative cash flows from operations totaling NIS 3 million.
- (2) The Company's shareholders provided guarantees totaling NIS 65 million for bank loans. In addition, during 2005 the management signed an agreement with the bank converting short-term credit into a long-term loan in the amount of NIS 150 millions to be paid over a period of 15 years. According to terms of agreement, the long-term loan is to be paid in 60 quarterly installments of NIS 3.9 million each starting April 2005.

The shareholders guarantee the quarterly payments to the bank up to NIS 65 million. In addition, the loan under the agreement, the Company's land is security for the loan.

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BAY HEART LTD. **NOTES TO THE FINANCIAL STATEMENTS**

Note 1 **General (Cont.)**

C. Company's business condition (Cont.)

- (2) (Cont.)

As part of the negotiation, the bank has agreed to give the Company an additional credit line in the amount of NIS 18.5 million to be used towards the renovation of the mall, whereby the main expense would be due to the construction of the Assuta Hospital. The credit line will be initially set up as short-term credit for the duration of the renovation project. The Company's shareholders provided full guarantees to the bank for that additional short-term credit.

- (3) Company management is contemplating significant efficiency-improvement measures consisting primarily of achieving full occupancy of the mall while changing its tenant composition. Management believes that these steps, together with obtaining of financing sources and financing arrangement with the banks, may improve operating cash flows and enable the Company to fulfill its obligations.

In light of the above outline, the continuation of the Company's activities and the fulfillment of its obligations are contingent upon the receipt of financing from its shareholders in a manner facilitating the repayment of its short-term liabilities and/or reaching financing agreements with its banks.

- (4) During December 2006, the rental contract, between the Company and Supersol Ltd. (party at interest) for renting an area of 3,400 square meters which yield annually income due to rental and managing fees of total 2.4 million dollars, ended.

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The Company's management plans to redivide the area and rent it to small shops in return of higher rental and managing fees. Till the financial statements approval date, the company hasn't found yet an alternative rentals for the area as mentioned above.

- (5) Starting mid July, 2006 and continuing through mid August, 2006, the state of Israel was in a military conflict with the Hezbollah organization in Lebanon a conflict that included missile attacks on civilian populations in the northern region of Israel. The mall, located in the Haifa bay region, was alternately open and operating according to the instructions of the home front command. The military conflict affected the 3rd quarter operational results of 2006.

D. Use of estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires that management makes estimates and assumptions pertaining to transactions and matters whose ultimate effect on the financial statements cannot be precisely determined at the time of financial statement preparation. Although these estimates are made on the basis of the best judgment, actual results may differ from these estimates.

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BAY HEART LTD. NOTES TO THE FINANCIAL STATEMENTS

Note 2 Significant Accounting Policies

A. Ceasing the adjustment of financial statements and financial reporting in reported amounts

1. Definitions:

Adjusted amount a nominal, historical amount adjusted to the CPI of December 2003 in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel.

Reported amount an adjusted amount plus nominal values added, and of net of any amounts deducted, subsequent to December 31, 2003.

2. Accounting Standard No. 12 ("Ceasing the Adjustment of Financial Statements") went into effect on January 1, 2004, following which the Company discontinued, starting January 1, 2004, the adjustment of its financial statements based on the changes in the general purchasing power of the Israeli currency. Starting in 2004 the Group's financial statements are prepared in reported amounts, with the comparative figures pertaining to periods up to (and including) December 31, 2003 included in adjusted amounts.

The reported and/or adjusted amounts of non-monetary items reflect their cost in terms of reported amounts and/or amounts adjusted to the changes in the consumer-price index (CPI) until December 2003 while not necessarily reflecting these items' market value or value to the business.

3. Method for determining the reported amounts in the annual financial statements of 2005 and 2006.

Balance sheet:

Monetary items (whose balance-sheet amount reflects current or realizable value at the balance-sheet date) have been included at their nominal values at the financial statements date.

Non-monetary items have been included at their adjusted amount plus nominal amounts added during the reported period and less amounts deducted during the reported period.

Investments in subsidiaries have been included on the basis of these companies' adjusted financial statements.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 **Significant Accounting Policies (Cont.)**

A. Ceasing adjustment of financial statements and financial reporting in reported amounts (Cont.)

4. Method for determining the reported amounts in the annual financial statements of 2005 and 2006 (Cont.)

Statement of operations:

Income and expenses, including financing, have been included in nominal values.

Income and expenses stemming from non-monetary items (mainly depreciation) have been computed concurrently with the computation of their corresponding balance-sheet amounts.

B. Principles of consolidation

The consolidated financial statements include full consolidation of the Subsidiary. Material transactions between the Company and its Subsidiary as well as balance and intercompany balance have been fully eliminated.

The consolidated data is based on the audited financial statements of the Subsidiary, which has been fully consolidated following the adaptation of its accounting policies with those of the Company.

C. Cash equivalents

Cash equivalents include unrestricted bank demand and time deposits with original maturity dates not exceeding three months.

D. Allowance for doubtful accounts

The allowance is computed specifically in respect of amounts, the collection of which in management's opinion is doubtful.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 **Significant Accounting Policies (Cont.)**

E. Fixed assets

Fixed assets are stated at cost, net of accumulated depreciation and net of a provision for impairment in value. Impairment has been computed on the basis of Israeli Accounting Standard No. 15 (see Note 2G). Depreciation is computed by the straight-line method, based on the estimated useful lives of the assets, at the following annual rates:

	%
Commercial center- building	2-7
Machinery and equipment	10

Office furniture and equipment

6-33

F. Other assets

Other assets, which constitute costs incurred by the Company as part of its participation in the construction of a railway terminal which is connected to its owned commercial center, are stated at cost, net of accumulated amortization computed at an annual rate of 10% and a provision for impairment in value. The latter is computed on the basis of Israel Accounting Standard No. 15 (see Note 2G and Note 2G).

G. Provision for impairment of assets

Pursuant to Accounting Standard No. 15 of the Israel Accounting Standards Board, the Company examines the recoverable amount of its long-lived assets whenever there exists any indication of their potential impairment. If an asset's book value exceeds its recoverable amount, which is established by the higher of the net selling price and its value in use, the Company recognizes the loss from this impairment in asset value. An impairment recognized in the past may be reversed only if a change occurs in the estimates used in determining the recoverable amount from the date of last loss recognition. The book value following that reversal may not exceed the value assigned to that asset had this impairment loss not been recorded in prior years (see Notes 5 and 6).

H. Revenue recognition

Service revenues are recognized over the period of the service.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 **Significant Accounting Policies (Cont.)****I. Earnings (loss) per share**

Earnings (loss) per share are computed based on the weighted average number of shares outstanding during the year.

J. Transactions with a controlling party

An interest-bearing capital note issued to the Company by its Subsidiary has been accounted for in accordance with the Israeli Securities Regulations (Disclosure of Transactions Between a Company and its Controlling Shareholder), 1996.

K. Fair value of financial instruments

The financial instruments of the Company and its Subsidiary mainly include non-derivative assets and liabilities.

Non-derivative assets include: cash and cash equivalents, trade accounts receivable, receivables and other current assets. Non-derivative liabilities include short-term bank borrowings, trade accounts payable, payables and other current liabilities, long-term bank loans, amounts due to interested parties and tenant deposits. Due to the nature of these financial instruments, their fair value is usually identical or close to the value at which they are presented in the financial statements.

L. Exchange rate and linkage

CPI and the dollar exchange-rate data:

	NIS/\$	CPI (index "in respect of") (1998 base year)
December 31,		
2006	4.225	116.93
2005	4.603	117.04
	%	%
Increase (decrease) during the year ended December 31 -		
2006	(8.2)	(0.3)
2005	6.8	2.4

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 **Significant Accounting Policies (Cont.)**

M. Effect of new accounting standards

Accounting Standard No. 22 – Financial Instruments – Disclosure and Presentation:

In July 2005, the Israel Accounting Standards Board (IASB) issued Accounting Standard No. 22 – Financial Instruments Disclosure and Presentation (hereinafter the Standard). The Standard sets down the presentation provisions for financial instruments and the fair disclosure required thereof in the financial statements. The presentation provisions address the rules for the allocation and classification of financial instruments into financial assets, financial liabilities or equity instruments, the classification of interest, dividends, and losses and gains related thereto, and the conditions that are required for the offset of financial assets against financial liabilities. The Standard requires disclosure of information pertaining to the factors that impact on the amount, timing, and certainty of the Company's future cash flows related to financial instruments and the accounting policy implemented in connection with such instruments. The Standard also requires disclosure of information pertaining to the nature and scope of the use that the Company makes of financial instruments, the business needs they serve, the risks connected thereto, and management policy pertaining to controlling such risks. The Standard supersedes Opinion No. 48 – the Accounting Treatment of Option Warrants and Opinion No. 53 – the Accounting Treatment of Convertible Liabilities of the Institute of Certified Public Accountants in Israel. The Standard applies to the financial statements for periods commencing on or after January 1, 2006. Accounting Standard No. 22 requires prospective application of its provisions. Accordingly, comparative amounts presented in the financial statements of periods commencing on the effective date of the Standard will not be restated.

In the opinion of the Company, the effect of the new standard on the results of operations, financial position, and cash flows of the Company will be immaterial.

Accounting Standard No. 24 – Stock-Based Payment:

In September 2005 the Israel Accounting Standards Board issued Accounting Standard No. 24, – Stock-Based Payment. The Standard requires the recognition in the financial statements of stock-based-payment transactions, including those with employees or other parties and which are to be settled in cash, other assets or equity instruments. As a result, among other things, expenses pertaining to grants of shares and options to employees are to be allocated over the grants' vesting periods based on each grant's fair value at the grant date. The Standard establishes measurement rules, and distinct requirements for transactions which are to be settled by equity instruments, transactions which are to be settled by cash, and transactions whose terms enable one of the parties to elect between settlement in cash or by an equity instrument.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 **Significant Accounting Policies (Cont.)**

M. **Effect of new accounting standards (cont.)**

Accounting Standard No. 24 – Stock-Based Payment (cont.):

The Standard also describes various disclosure requirements as to the share-based-payment payments. Standard No. 24 will go into effect for periods beginning January 1, 2006 or thereafter, with earlier implementation recommended.

The Standard's guidance with respect to share-based payment to be settled by an equity instrument are to be implemented in regard to any grant made subsequent to March 15, 2005 but not yet vested by January 1, 2006. Since this Standard will be implemented in regard to periods commencing January 1, 2006, no expenses are allocated in the 2005 financial statements in respect of grants made subsequent to March 15, 2005. Nevertheless, in the 2006 financial statements, the 2005 financial statements are to be restated to reflect the expenses for that period.

The effect of the Standard on the Company's financial statements is not expected to be material.

Accounting Standard No. 21 – Earnings per Share:

In February 2006 the Israel Accounting Standards Board issued Accounting Standard No. 21, Earnings per Share (the Standard). Upon the introduction of this Standard, Opinion No. 55 of the Institute of Certified Public Accountants in Israel on Earnings per Share will be superseded.

The Standard establishes that an entity is to compute its basic earnings per share in regard to income or loss attributable to ordinary shareholders of the reporting entity, and that the entity shall compute its basic EPS with respect to income or loss from continuing operations attributable to the ordinary shareholders of the reported entity, should such be presented.

Basic earnings per share is to be computed by dividing income or loss attributed to holders of ordinary shares of the reporting entity (numerator), by the weighted average of the outstanding ordinary shares (denominator) during the period.

In its computation of diluted earnings per share, the entity must adjust its income or loss attributable to the ordinary shareholders of the reporting entity and the weighted average of the outstanding shares for the effects of all the dilutive potential ordinary shares.

In accordance with the Standard's guidance, the Standard will apply to financial statements for periods starting January 1, 2006 and thereafter. The Standard further establishes that its guidance is to be applied retroactively in respect of comparative earnings per share data relating to prior periods.

The Company believes that the effect of the Standard on its earnings (loss) per share is not expected to be material.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 **Significant Accounting Policies (Cont.)**

M. **Effect of new accounting standards (cont.)**

Standard No. 25 Revenues:

In February 2006 the Israel Accounting Standards Board published Accounting Standard No.25 (Revenues), which establishes rules for the recognition, measurement and presentation of revenues arising from the:

sale of goods; rendering of services; and use by others of entity assets yielding interest, royalties and dividends. The standard states that an entity should measure its revenues based on the fair value of the proceeds received and/or entitled to. Assets and liabilities included in the balance sheet on December 31, 2005 in amounts different than those recognized before this standard s implementation will be adjusted on January 1, 2006 to the amounts recognized based on this standard, with the effect of this adjustment recognized as a cumulative effect of an accounting change.

Management believes that the effect of this new standard on the Company s financial position, results of operations and cash flows is not expected to be material.

Standard No. 25 will apply to financial statements covering periods beginning January 1, 2006 and onwards.

N. Asset s rental contracts

The company classifies asset rental contracts either as a financial or operational lease according to the requirements detailed in IAS Standard No. 17 (international standard). According to the international standard, the lease will be classified as financial if it actually transfers all included risks and benefits to the lessee. The lease will be classified as operational if there is no actual transfer of all risks and benefits included in ownership.

The international standard classifies the lease according to the financial nature of the transaction. The standard presents a number of examples which can be used each on its own, or as a combination, to indicate whether the lease is financial as follows: transferring actual ownership of the asset to the lessee; giving the option of acquisition to the lessee at an opportune cost; verifying that the time period of the lease is consistent with the majority of the financial lifetime of the leased; verifying that the present value of the cash flow is equal to the fair value of the leased; verifying that the leased is unique in character such that only the lessee will be able to use the leased without any substantial adjustments.

The company examined the rent transaction of an asset in the mall to Asuta according to the nature of the transaction and the examples as described above. The company views the financial nature of the Asuta transaction as a long term lease.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 2 **Significant Accounting Policies (Cont.)**

N. Asset s rental contracts (cont.)

According to the rental contract between the company and Asuta, the legal and proprietary ownership of the rented does not transfer to Asuta. The time period of the rent, as written in the contract, is fifteen years, with no option for extension, and does not constitute the majority of the lifetime of the rented. The present value of the expected cash flow to be received during the time period of the rented is not close to the fair value of the rented. As a result of the multi-purpose construction of the rented, at the end of the contractual time-period of the rented, the renter will be able to use it for other purposes, and rent to alternative renters without any significant cost adjustments compared to the fair value of the rented.

According to the nature of the transaction and the whole of the examples as described above, the transaction was classified as an operational lease.

Note 3 **Additional Details Concerning Current Assets**

	Consolidated		Company	
	December 31,		December 31,	
	2006	2005	2006	2005
	Reported amount	Reported amount	Reported amount	Reported amount
A. Trade accounts receivable				
Outstanding accounts	2,380	2,716	2,376	2,712
Post-dated checks receivable	696	594	696	594
	3,076	3,310	3,072	3,306
Less: allowance for doubtful accounts	(847)	(743)	(847)	(743)
	2,229	2,567	2,225	2,563

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS
(in thousands of NIS)

Note 3 **Additional Details Concerning Current Assets (cont.)**

B. Other receivables and current assets

	Consolidated		Company	
	December 31,		December 31,	
	2006	2005	2006	2005
	Reported amount	Reported amount	Reported amount	Reported amount
Institutions	221	575	152	507
Prepaid expenses	201	303	201	303
Related parties	108	51	89	135
Deposit due to building permits	100	100	100	100
Accounts receivable due to leasehold investments	-	921	-	921
Other	58	70	58	70
	688	2,020	600	2,036

Note 4 **Investments, Long-Term Loans and Receivables**

	Consolidated		Company	
	December 31,		December 31,	
	2006	2005	2006	2005
	Reported amount	Reported amount	Reported amount	Reported amount
Long-term loan - construction of commercial center\ cinema center (A)	2,397	347	6,389	924
Investment in the Subsidiary (*):				
Capital note (B)	-	-	10,627	10,214
Capital reserve (**)	-	-	3,009	3,009
Accumulated deficit	-	-	(3,207)	(2,963)
	-	-	10,429	10,260
	2,397	347	16,815	11,184

(*) Investment in shares of the Subsidiary in an amount less than NIS 1.00.

(**) In respect of a transaction carried out between the Company and a controlled company.

A. The balance of the loan, which provided by the Company to the joint venture for constructing the commercial center\ cinema center (see Note 11B). The loan is unlinked and does not bear interest.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 4 **Investments, Long-Term Loans and Receivables (cont.)**

B. This loan was provided to the Subsidiary for acquiring land and constructing the commercial-center project.

Starting January 1, 1999 this loan was converted into a capital note. Starting January 1, 2002 it was linked to the CPI and bearing interest of 5%. Pursuant to the Israel Securities Regulations (Disclosure of Transactions Between a Company and Its Controlling Shareholder in the Financial Statements), 1996, a capital reserve has been presented in shareholders' deficiency in respect of that capital note.

The Company will set the repayment date of the capital note by advance notice of fifteen months.

C. **Information pertaining to an investment in a joint venture**

The following is summarized data concerning the joint venture whose financial statements have been proportionately consolidated in these financial statements:

December 31,

	December 31,	
	2006	2005
	Reported amount	Reported amount
	(NIS in thousands)	
Current assets	705	616
Non-current assets	8,739	3,519
Current liabilities	327	165
Long-term liabilities	7,475	2,526

	Year ended December 31,		
	2006	2005	2004
	Reported amount	Reported amount	Reported amount
	(NIS in thousands)		
Revenues	639	621	622
Expenses	256	349	325
Net income	383	272	297

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 5 **Fixed Assets, Net**

A. **Composition**

Consolidated			
Land	Machinery and equipment	Office furniture and equipment	Total

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	Consolidated			
	Reported amount			
	(NIS in thousands)			
Cost:				
Balance - January 1, 2006	298,967	14,950	1,516	315,433
Additions	12,195	-	41	12,236
Balance - December 31, 2006	311,162	14,950	1,557	327,669
Accumulated depreciation:				
Balance January 1, 2006	70,886	14,802	1,238	86,926
Depreciation expense	5,868	48	64	5,980
Balance - December 31, 2006	76,754	14,850	1,302	92,906
Less: Provision for impairment in value of assets				
Balance - January 1, 2006	72,071	87	99	72,257
Depreciation	(1,943)	(12)	(9)	(1,964)
Balance - December 31, 2006	70,128	75	90	70,293
Net book value:				
December 31, 2006	164,281	25	165	164,470
December 31, 2005	156,011	61	179	156,251
Company				
Cost:				
Balance - January 1, 2006	286,943	14,950	1,516	303,409
Additions	8,782	-	41	8,823
Balance - December 31, 2006	295,725	14,950	1,557	312,232
Accumulated depreciation:				
Balance - January 1, 2006	70,684	14,802	1,238	86,724
Depreciation expense	5,831	48	64	5,943
Balance - December 31, 2006	76,515	14,850	1,302	92,667
Less: Provision for impairment in value of assets				
Balance - January 1, 2006	72,071	87	99	72,257

	Company			
Depreciation	(1,943)	(12)	(9)	(1,964)
Balance - December 31, 2006	70,128	75	90	70,293
Net book value:				
December 31, 2006	149,082	25	165	149,272
December 31, 2005	144,188	61	179	144,428

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 5 **Fixed Assets (Cont.)**

B. Additional details

- (1) The Company has ownership rights to the land.
- (2) The investment in the construction of the commercial center includes Company land at a cost of NIS 6 million, and the Subsidiary's share in the land at a cost of NIS 8,452 thousand as well as planning and construction costs totaling NIS 2,992 thousand. The Subsidiary's land has not yet been registered in the name of the Subsidiary at the Land Registry Office due to various procedures not yet concluded by the seller. To secure the registration, a second-ranking mortgage was recorded on the land in favor of the Subsidiary.

The Subsidiary's financing expenses up to December 31, 2000 have been capitalized to the cost of the land.

- (3) Based on the management's expectation of operations, they concluded that the fixed assets is presented at fair value, and there is no need to make an additional provision for the year 2006.

Based on appraiser's valuation made in January 2006, the net book values of the fixed assets and other assets were written down by NIS 923 thousand at December 31, 2005.

- (4) As for liens on assets see Note 11.

Note 6 **Other Assets**

A. Composition (Consolidated and Company)

**Payment on account of
a
railway terminal**

Reported amount

(NIS in thousands)

Cost:

	Payment on account of a railway terminal
Balance - January 1, 2006	7,337
Additions	-
Balance - December 31, 2006	7,337
Accumulated amortization:	
Balance - January 1, 2006	3,087
Current year's amortization	733
Balance - December 31, 2006	3,820
Less: provision for impairment in value of assets:	
Balance - January 1, 2006	1,428
Current year's amortization	(248)
Balance - December 31, 2006	1,180
Net book value:	
December 31, 2006	2,337
December 31, 2005	2,822

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 6 **Other Assets (Cont.)**

B. As for the provision for impairment in value of assets see Note 5B (3).

C. Additional details

On April 13, 1999 the Company signed an agreement with the Ports and Railroad Authority (PRA) for the construction of a railway station to be financed by the Company. Upon its completion, the station was transferred to the ownership of the PRA for no consideration.

The construction of the station near the Mall was designed to increase the number of visitors there and hence promote sales. The station facilitates quick and easy access to the Mall and to nearby sites.

The train station s cost will be amortized over the period of economic benefit, which, in management s estimate, is expected to be 10 years.

Note 7 **Additional Details Concerning Current Liabilities**

A. Short-term bank borrowings

	Interest rate	Consolidated		Company	
		December 31,		December 31,	
		2006	2005	2006	2005
		Reported amount	Reported amount	Reported amount	Reported amount
%	(NIS in thousands)		(NIS in thousands)		
Overdraft	14-9.4	-	896	-	896
Unlinked short-term loans	6.5	18,500	11,266	18,500	11,266
Current maturities of long-term loans		7,353	6,930	7,148	6,740
		<u>25,853</u>	<u>19,092</u>	<u>25,648</u>	<u>18,902</u>

As for an agreement with a bank regarding the conversion of short-term loans to a long-term loan see Note 16.

B. Trade accounts payable (consolidated and Company)

	December 31,	
	2006	2005
	Reported amounts	Reported amounts
(in thousand NIS)		
Outstanding amounts (*)	1,937	3,540
Post-dated checks	518	644
	<u>2,455</u>	<u>4,184</u>

* Includes an amount of NIS 1,123 thousand due to interested parties as of December 31, 2005

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 7 Additional Details Concerning Current Liabilities (Cont.)

C. Other payables and current liabilities

	Consolidated	Company
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	Consolidated		Company	
	December 31,		December 31,	
	2006	2005	2006	2005
	Reported amount	Reported amount	Reported amount	Reported amount
	(in thousand NIS)		(in thousand NIS)	
Deferred income	71	99	71	99
Wage-related liabilities	262	228	262	228
Institutions	331	745	320	745
Interest payable	2,095	2,334	2,095	2,334
Accrued legal claims	664	655	664	655
Other (*)	1,574	203	1,490	184
	4,997	4,264	4,902	4,245

* Includes an amount of NIS 748 thousand due to interested parties as of December 31, 2006

Note 8 **Long-Term Banks Loans**

A. Composition

	Interest rate	Consolidated		Company	
		December 31,		December 31,	
		2006	2005	2006	2005
		Reported amount	Reported amount	Reported amount	Reported amount
		(in thousand NIS)		(in thousand NIS)	
CPI-linked	6.22	142,864	150,208	142,089	149,241
Less: current maturities		(7,353)	(6,930)	(7,148)	(6,740)
		135,511	143,278	134,941	142,501

B. Repayment schedule at December 31, 2006

	Consolidated	Company
	(in thousand NIS)	
First year - current maturities	7,353	7,148
Second year	7,825	7,603

	<u>Consolidated</u>	<u>Company</u>
Third year	8,328	8,087
Fourth year	8,708	8,601
Fifth year	9,150	9,150
Sixth year and thereafter	101,500	101,500
	<u>142,864</u>	<u>142,089</u>

- C. The liabilities are secured by liens (see Note 11).

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 9 **Long-Term Liabilities to Interested Parties**

The loans received from interested parties are linked to the CPI and bear no interest. The repayment dates have not yet been established.

Note 10 **Accrued Severance Pay, Net (Consolidated and Company)**

A. **Composition**

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	<u>Reported amount</u>	<u>Reported amount</u>
	<u>(in thousand NIS)</u>	
Accrued severance pay	168	164
Less: amounts funded	(168)	(164)
	<u>-</u>	<u>-</u>

B. **Additional details**

The Company's obligations for severance pay is covered by deposits with managers' insurance policies and provident funds. The amounts accumulated at the insurance companies are not under the Company's custody or management and, accordingly, not reflected in the balance sheet. The deposited fund includes accrued earnings and may be withdrawn subject to the provisions of the Severance Pay Law, 1963.

Note 11 **Commitments and Contingent Liabilities**

A. **Liabilities secured by liens**

As security for its bank loans the Company registered a fixed lien on its share capital, goodwill, rights in land and rights to assets. In addition, it registered a floating lien on all existing assets as well as present and future rights. As of December 31, 2006 these

bank loans secured by those liens amounted to NIS 161,364 thousand (Company).

B. Commitments

The Subsidiary acquired a 50%-interest in land rights (by purchasing half of the shares of the companies owning the land) in an area of 8,300 sq.m. of land adjacent to the Mall. During 1997 the Subsidiary and the sellers entered into a joint-venture agreement to plan, construct, lease and manage a lower-cost commercial center for leasing larger commercial space, as well as a gas station.

A total of NIS 3.8 million had been accumulated by the balance-sheet date, in respect of the project, including costs of a gas station, which had been constructed at a cost of NIS 1.5 million and commenced operation during 2000.

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 11 Commitments and Contingent Liabilities (Cont.)

B. Commitments (cont.)

As of December 31, 2006, the plans of constructing a shopping center are on hold. Nevertheless, the Company is negotiating to establish the joint-venture as planned. During 2005 a Memorandum of Understanding was signed between the Company and the Israeli Theaters Ltd, a company witch operates cinemas is Israel.

C. Long-term leases

The minimum future, CPI-linked, rental revenues from all long-term leases exceeding one year at December 31, 2006, follows:

	thousand NIS
2007	9,248
2008	6,309
2009	4,826
2010	4,148
2011 and onwards	26,636
Total	51,167

Note 12 Share Capital

A. Composition

	December 31, 2005 and 2006	
	Number of shares	
	Authorized	Issued and outstanding
Ordinary shares of NIS 1.00 par value each	5,000,000	4,672,732

December 31, 2005 and 2006

- B. The ordinary shares grant their holders the right to attend and vote in General Meetings, participate in distribution of earnings and, in the event of liquidation, participate in the distribution of excess assets.

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 13 **Supplementary Information Concerning Income and Expenses**

Consolidated			Company		
Year ended December 31,			Year ended December 31,		
2006	2005	2004	2006	2005	2004
Reported amount	Reported amount	Reported amount	Reported amount	Reported amount	Reported amount
(in thousand NIS)					

A. Revenues (*)

Rental income	12,857	10,295	10,717	12,458	9,907	10,181
Management fees	5,272	4,877	5,095	5,272	4,877	5,095
	<u>18,129</u>	<u>15,172</u>	<u>15,812</u>	<u>17,730</u>	<u>14,784</u>	<u>15,276</u>

(*) Revenues from major lessees see Note 16B (1).

B. Operating expenses

Depreciation and amortization	4,501	3,914	4,136	4,464	3,877	4,073
Salaries and social benefits	1,576	1,366	1,711	1,576	1,366	1,711
Cleaning and security	2,858	2,764	2,739	2,858	2,764	2,739
Electricity and water	920	1,045	1,233	920	1,045	1,233
Advertising	2,529	2,510	2,507	2,529	2,510	2,507
Maintenance	464	418	498	464	418	498
Other	516	585	280	516	585	306
	<u>13,364</u>	<u>12,602</u>	<u>13,104</u>	<u>13,327</u>	<u>12,565</u>	<u>13,067</u>

C. General and administrative expenses

Insurance	408	565	473	408	565	473
Salaries and social benefits	608	780	726	608	780	726
Professional fees	530	439	480	506	417	459
Bad debt	339	(27)	82	339	(27)	82

	Consolidated			Company		
Municipal taxes	663	859	924	663	859	924
Other	209	230	182	209	230	170
	<u>2,757</u>	<u>2,846</u>	<u>2,867</u>	<u>2,733</u>	<u>2,824</u>	<u>2,834</u>

D. Financing expenses, net

Interest on long-term loans	8,459	14,038	4,058	7,876	13,148	3,379
Interest expenses (income) on short-term loans and other, net	1,274	488	5,250	1,275	488	5,135
	<u>9,733</u>	<u>14,526</u>	<u>9,308</u>	<u>9,151</u>	<u>13,636</u>	<u>8,514</u>

E. Other expenses, net

Other expenses of NIS 923 thousand (consolidated and Company) pertain to a provision for impairment in the value of assets (see Note 5(b) (3)). In 2004 other expenses of NIS 9,411 thousand pertain to a provision for impairment in the value of assets.

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 14 Income Taxes (Consolidated and Company)**A. Effective tax rate**

The difference between the theoretical tax computed by the ordinary rates and the provision for income taxes follows:

	Consolidated		
	Year ended December 31,		
	2006	2005	2004
	<u>Reported amounts</u>	<u>Reported amounts</u>	<u>Reported amounts</u>
	(in thousand NIS)		
Pre- tax income (loss)	(7,725)	(15,725)	(18,878)
Statutory tax rate	31%	34%	35%
Tax computed at the statutory rate	(2,395)	(5,347)	(6,607)
Disallowed expenses and other			

	Consolidated		
differences, net	512	555	495
Losses and tax benefits in respect of which no deferred taxes have been recorded	1,833	4,792	6,112
differences, net	-	-	-

- B.** The Company and the Subsidiary have received final tax assessments up to, and including, the 2002 tax-year.
- C.** At December 31, 2006, the Company had carry-forward tax losses amounting to NIS 89 million.
- D.** As of December 31, 2006 the Company did not record a deferred-tax asset of approximately NIS 27.5 million since its realization is not expected.
- E.** On July 25, the Knesset passed an Amendment to the Income Tax Ordinance (No. 147), 2005 which stipulated, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2006 31%, 2007 29%, 2008 27%, 2009 26% and 2010 and thereafter 25%.

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 15 **Interested and Related Parties (Consolidated and Company)**

A. **Balances with related parties**

	December 31,	
	2006	2005
	Reported amounts	Reported amounts
	(in thousand NIS)	
Interested parties - trade accounts receivable	30	60
Interested parties - trade accounts payable	-	1,123
Interested parties - expense payables	748	-

As for long-term liabilities to interested parties see Note 9.

- B.** Benefits granted to, and transactions with, interested parties:

		Year ended December 31,		
		2006	2005	2004
		Reported amounts	Reported amounts	Reported amounts
		(in thousand NIS)		
1.	Revenues:			
	Rental and management fees (*)	2,417	2,688	2,896
2.	Benefits to an interested party employed by the Company:			
	Salary and fringe benefits	581	572	843
3.	Investments in building (**)	4,449	4,070	-
4.	Pursuant to the decision of the Company's board of directors, starting in 2002, long-term loans due to interested parties are linked to the CPI and bear no interest. The interest rate on loans from interested parties in 2001 stood at 5.2% above the CPI. It was also decided that starting in 2002 management fees would no longer be allocated to the interested parties.			
	(*) An area of 3,400 sq. m. is leased to Super-Sol Ltd. (an interested party).			
	(**) Construction work made by a company related to an interest party.			

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 16 **Linkage Terms of Monetary Balances**

A. **Consolidated balance sheet**

	Linked to CPI	Unlinked	Total
	(in thousand NIS)		
December 31, 2006			
Current assets			
Cash and cash equivalents	-	2,702	2,702
Trade accounts receivable	-	2,229	2,229
Receivables and other current assets	177	511	688
	177	5,442	5,619

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	Linked to CPI	Unlinked	Total
Long-term loans receivable	-	2,397	2,397
	177	7,839	8,016
Current liabilities			
Short-term bank borrowings	7,353	18,500	25,853
Trade accounts payable	-	2,455	2,455
Payables and other current liabilities	-	4,997	4,997
	7,353	25,952	33,305
Long-term liabilities			
Bank loans	135,511	-	135,511
Due to interested parties	53,768	-	53,768
Tenant deposits	545	-	545
	189,824	-	189,824
	197,177	25,952	223,129
December 31, 2005			
Current assets			
Cash and cash equivalents	-	81	81
Trade accounts receivable	-	2,567	2,567
Receivables and other current assets	119	1,901	2,020
	119	4,549	4,668
Long-term loans receivables	-	347	347
	119	4,896	5,015
Current liabilities			
Short-term bank borrowings	6,930	12,162	19,092
Trade accounts payable	-	4,184	4,184
Payables and other current liabilities	-	4,264	4,264
	6,930	20,610	27,540
Long-term liabilities			
Bank loans	143,278	-	143,278
Due to interested parties	33,319	-	33,319
Tenant deposits	532	-	532
	177,129	-	177,129
	184,059	20,610	204,669

Linked to CPI	Unlinked	Total

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 16 Linkage Terms of Monetary Balances (Cont.)**B. Company balance sheet**

	Linked to CPI	Unlinked	Total
	(in thousand NIS)		
December 31, 2006			
Current assets			
Cash and cash equivalents	-	2,670	2,670
Trade accounts receivable	-	2,225	2,225
Receivables and other current assets	89	511	600
	89	5,406	5,495
Long-term loans receivable	16,815	-	16,815
	16,904	5,406	22,310
Current liabilities			
Short-term bank borrowings	7,148	18,500	25,648
Trade accounts payable	-	2,455	2,455
Payables and other current liabilities	-	4,902	4,902
	7,148	25,857	33,005
Long-term liabilities			
Loans from banks	134,941	-	134,941
Due to interested parties	53,734	-	53,734
Tenant deposits	545	-	545
	189,220	-	189,220
	222,225	25,857	196,368
December 31, 2005			
Current Assets			

	Linked to CPI	Unlinked	Total
Cash and cash equivalents	-	36	36
Trade accounts receivable	-	2,563	2,563
Receivables and other current assets	135	1,901	2,036
	<u>135</u>	<u>4,500</u>	<u>4,635</u>
Long-term loans receivable	11,184	-	11,184
	<u>11,319</u>	<u>4,500</u>	<u>15,819</u>
Current liabilities			
Short-term bank borrowings	6,740	12,162	18,902
Trade accounts payable	-	4,184	4,184
Payables and other current liabilities	-	4,245	4,245
	<u>6,740</u>	<u>20,591</u>	<u>27,331</u>
Long-term liabilities			
Loans from banks	142,501	-	142,501
Due to interested parties	33,286	-	33,286
Tenant deposits	532	-	532
	<u>176,319</u>	<u>-</u>	<u>176,319</u>
	<u>183,059</u>	<u>20,591</u>	<u>203,650</u>

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 17 **Condensed Financial Statements in Nominal Terms (Cont.)**

A. **Balance sheets**

	December 31,	
	2006	2005
	(in thousand NIS)	
Current assets		
Cash and cash equivalents	2,670	36
Trade accounts receivable	2,225	2,563
Receivables and other current assets	600	2,036
	<u>5,500</u>	<u>4,635</u>

	December 31,	
	2006	2005
	5,495	4,635
Investments, loans and long-term receivables	15,054	9,422
Fixed assets, net	111,362	105,682
Other assets	2,812	3,634
	134,723	123,373
Current liabilities		
Short-term bank borrowings	25,648	18,902
Trade accounts payable	2,455	4,184
Payables and other current liabilities	4,902	4,245
	33,005	27,331
Long - term liabilities		
Bank loans	134,941	142,501
Due to interested parties	53,734	33,286
Tenant deposits	545	532
	189,220	176,319
Shareholders' deficiency	(87,502)	(80,227)
	134,723	123,373

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS
(in thousands of NIS)

Note 17 **Condensed Financial Statements in Nominal Terms (Cont.)**

B. **Statements of operations**

Year ended December 31,		
2006	2005	2004
(in thousand NIS)		

	<u>Year ended December 31,</u>		
Revenues	17,730	14,784	15,276
Operating expenses	12,828	12,028	12,238
Gross profit	4,902	2,756	3,038
General and administrative expenses	2,733	2,824	2,834
Operating income	2,169	(68)	204
Financing expenses, net	9,151	13,630	8,514
Loss before losses of the subsidiary	(6,982)	(13,698)	(8,310)
Losses of the Subsidiary	243	558	350
Loss for the year	(7,225)	(14,256)	(8,660)

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 17 **Condensed Financial Statements in Nominal Terms**

C. Statements of changes in shareholders' deficiency

	<u>Share capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>(in thousand NIS)</u>		
Balance - January 1, 2004	4,673	(62,034)	(57,361)
Loss for the year	-	(8,660)	(8,660)
Balance - January 1, 2005	4,673	(70,694)	(66,021)
Loss for the year	-	(14,256)	(14,256)
Balance - January 1, 2006	4,673	(84,950)	(80,277)
Loss for the year	-	(7,225)	(7,225)

	Share capital	Accumulated deficit	Total
Balance - December 31, 2006	4,673	(92,175)	(87,502)

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars****A. Principles of translation**

The Company's statutory financial statements were originally prepared in adjusted NIS, with its nominal NIS data (presented in Note 17) translated into US dollars, in accordance with the guidelines received from the investor, as follows:

(1) Up to, and including, December 31, 1992:

(a) Balance sheet

Non-monetary items were translated at the exchange rate in effect on the transaction date.

All other assets and liabilities were translated at the exchange rate in effect on the balance-sheet date.

(b) Statement of operations

Revenues and expenses were translated at the representative exchange rate in effect on the transaction date.

Differences arising from translation were included in financing expenses, net.

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars (Cont.)****A. Principles of translation (Cont.)**

(2) Commencing January 1, 1993

Commencing January 1, 1993, the Company's financial data in nominal NIS was translated into dollars based on Statement No. 52 (Foreign Currency Translation) of the US Financial Accounting Standards Board. In this regard, in accordance with a pronouncement issued by the Emerging Issues Task Force (EITF), effective January 1, 1993, Israel was no longer considered to have a hyperinflationary economy and, accordingly, effective January 1, 1993, the translation was performed as described below:

Opening balances on January 1, 1993 were derived from the December 31, 1992 financial statements in dollars (translated pursuant to the guidelines mentioned above), which were translated back into NIS based on the representative exchange rate on that date and became the new, nominal basis in NIS. At the end of all reported periods subsequent to January 1, 1993, the nominal NIS financial data has been translated as follows:

(a) Balance sheet

Assets and liabilities have been translated into dollars based on the representative exchange rate in effect as of the respective balance sheet dates. Amounts relating to share capital and receipts on account of shares have been

translated into dollars based on the representative exchange rate in effect as of the date of the transaction.

(b) Statement of operations

Revenues and expenses have been translated at average exchange rates during the respective reporting periods.

(c) Differences arising from translation have been recorded as a separate component of shareholders' deficiency.

(3) See Note 2L for data relating to the representative exchange rate of the dollar.

(4) Dollar amounts herein should not be construed, except where otherwise indicated in the financial statements, as a representation that NIS amounts actually represent or could be converted into dollars.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars (Cont.)**

A. Principles of translation (Cont.)

- (5) NIS amounts in this note are presented for comparative purposes only, and represent the opening balances on January 1, 1993 in NIS as per (2) above, after giving effect to the recording of all transactions since that date in nominal NIS.

B. Condensed consolidated balance sheets

	<u>December 31,</u>		<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>(in thousand NIS)</u>		<u>(in thousand US dollars)</u>	
Current assets				
Cash and cash equivalents	2,702	81	640	18
Trade accounts receivable	2,229	2,567	528	558
Receivables and other current assets	688	2,020	164	440
	<u>5,619</u>	<u>4,668</u>	<u>1,332</u>	<u>1,016</u>
Investments, loans and long-term receivables	<u>2,397</u>	<u>347</u>	<u>567</u>	<u>75</u>
Fixed assets, net	<u>150,484</u>	<u>142,010</u>	<u>35,618</u>	<u>30,852</u>
Other assets	<u>3,322</u>	<u>4,015</u>	<u>786</u>	<u>872</u>
	<u>161,822</u>	<u>151,040</u>	<u>38,303</u>	<u>32,815</u>
Current liabilities				

	December 31,		December 31,	
Short-term bank borrowings	25,853	19,092	6,119	4,148
Trade accounts payable	2,455	4,184	581	909
Payables and other current liabilities	4,997	4,264	1,183	926
	<u>33,305</u>	<u>27,540</u>	<u>7,883</u>	<u>5,983</u>
Long - term liabilities				
Bank loans	135,511	143,278	32,074	31,127
Due to interested parties	53,768	33,319	12,726	7,239
Tenant deposits	545	532	129	116
	<u>189,824</u>	<u>177,129</u>	<u>44,929</u>	<u>38,482</u>
Shareholders' deficiency	(61,307)	(53,629)	(14,509)	(11,650)
	<u>161,822</u>	<u>151,040</u>	<u>38,303</u>	<u>32,815</u>

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars (Cont.)**

C. Condensed consolidated statements of operations

	Year ended December 31,			Year ended December 31,		
	2006	2005	2004	2006	2005	2004
	(in thousand NIS)			(in thousand US dollars)		
Revenues	18,129	15,172	15,781	4,280	3,363	3,521
Less:						
Operating, general and administrative expenses	11,620	11,534	11,860	2,749	2,558	2,647
Depreciation and amortization	4,455	3,841	3,734	1,052	851	833
	<u>16,075</u>	<u>15,375</u>	<u>15,594</u>	<u>3,801</u>	<u>3,409</u>	<u>3,480</u>
Operating income	2,054	(203)	187	479	(46)	41
Financing expenses, net	9,732	14,518	9,304	2,307	3,197	2,071
Loss before comprehensive income	(7,678)	(14,721)	(9,117)	(1,828)	(3,243)	(2,030)

	Year ended December 31,			Year ended December 31,		
Other comprehensive income:						
Translation adjustment	-	-	-	(1,031)	625	(199)
Comprehensive loss	(7,678)	(14,721)	(9,117)	(2,859)	(2,618)	(2,229)

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars (Cont.)**

D. Condensed statements of changes in shareholders' deficiency

	Share capital	Cumulative other comprehensive income	Accumulated deficit	Total
N I S				
Balance -January 1, 2004	8,052	(3,698)	(34,145)	(29,791)
Loss for the year	-	-	(9,117)	(9,117)
Balance - December 31, 2004	8,052	(3,698)	(43,262)	(38,908)
Loss for the year	-	-	(14,721)	(14,721)
Balance - December 31, 2005	8,052	(3,698)	(57,983)	(53,629)
Loss for the year	-	-	(7,678)	(7,678)
Balance - December 31, 2006	8,052	(3,698)	(65,661)	(61,307)

	Share capital	Cumulative other comprehensive income	Accumulated deficit	Total
US dollars				
Balance - January 1, 2004	2,913	(2,034)	(7,682)	(6,803)
Translation adjustment	-	(199)	-	(199)
Loss for the year	-	-	(2,030)	(2,030)
Balance- December 31, 2004	2,913	(2,233)	(9,712)	(9,032)
Translation adjustment	-	625	-	625
Loss for the year	-	-	(3,243)	(3,243)
Balance- December 31, 2005	2,913	(1,608)	(12,955)	(11,650)

	Share capital	Cumulative other comprehensive income	Accumulated deficit	Total
Translation adjustment	-	(1,031)	-	(1,031)
Loss for the year	-	-	(1,828)	(1,828)
Balance- December 31, 2006	2,913	(2,639)	(14,783)	(14,509)

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars (Cont.)**

E. Condensed consolidated statements of cash flows

	Year ended December 31,			Year ended December 31,		
	2006	2005	2004	2006	2005	2004
	(in thousand NIS)			(in thousand US dollars)		
Cash Flows - Operating Activities						
Loss for the year	(7,678)	(14,721)	(9,117)	(1,828)	(3,243)	(2,030)
Adjustments required to present cash flows from operating activities (Appendix A)	4,467	9,640	3,312	898	2,210	707
Net cash used in operating activities	(3,211)	(5,081)	(5,805)	(930)	(1,033)	(1,323)
Cash Flows - Investing Activities						
Additions to fixed assets	(12,236)	(11,483)	(812)	(2,896)	(2,495)	(188)
Investment in long-term loan	(2,050)	-	-	(498)	-	-
Other assets	-	33	(39)	-	7	(9)
Net cash used in investing activities	(14,286)	(11,450)	(851)	(3,394)	(2,488)	(197)
Cash Flows - Financing Activities						
Proceeds of long-term loans from interested parties	20,757	11,094	4,077	4,945	2,410	946
Repayment of long-term bank loans	(6,977)	(4,876)	(8,357)	(1,651)	(1,059)	(1,940)
Short-term bank borrowings, net	6,338	10,346	10,958	1,396	2,480	2,518
Net cash provided by financing activities	20,118	16,564	6,678	4,690	3,831	1,524
Effects of exchange rate changes	-	-	-	256	(304)	1

	Year ended December 31,			Year ended December 31,		
Increase in cash and cash equivalents	2,621	33	22	622	7	5
Cash and cash equivalents at the beginning of year	81	48	26	18	11	6
Cash and cash equivalents at the end of year	2,702	81	48	640	18	11

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars (Cont.)**

Appendix A: **Adjustments required To Present Cash Flows from Operating Activities**

	Year ended December 31,			Year ended December 31,		
	2006	2005	2004	2006	2005	2004
	(in thousand NIS)			(in thousand US dollars)		
Income and expenses not involving cash flows:						
Depreciation and amortization	4,455	3,833	3,761	1,052	851	833
Effect of exchange rates and linkage on long-term loans	(675)	4,925	741	(160)	1,082	168
Increase (decrease) in accrued severance pay	-	(5)	(5)	-	(1)	(1)
	3,780	8,753	4,497	892	1,932	1,000
Changes in assets and liabilities:						
Decrease (increase) in trade receivables and other current assets	1,670	(1,920)	(241)	224	(338)	(73)
Increase (decrease) in trade accounts payable and other current liabilities	(996)	3,121	(972)	(222)	683	(226)
Increase (decrease) in tenants deposits	13	(314)	28	4	(67)	6
	687	887	(1,185)	6	278	(293)
	4,467	9,640	3,312	898	2,210	707

Appendix B **Non-cash transactions**

Conversion of short-term loan into long-term loan	-	101,998	-	-	22,159	-
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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 18 **Condensed Consolidated Financial Information in U.S. Dollars (Cont.)**

F. Comparison of shareholders' deficiency

	December 31,		
	2006	2005	
	US dollars		
Primary financial statements in adjusted NIS, translated into dollars (1)	(11,433)	(8,816)	
Financial information in U.S. dollars	(14,509)	(11,650)	
	Year ended December 31,		
	2006	2005	2004
	US dollars		

G. Comparison of net income (loss)

Primary financial statements in adjusted NIS, translated into dollars (1)	(1,828)	(3,416)	(4,382)
Financial information in U.S. dollars	(1,828)	(3,243)	(2,030)

(1) Translated into dollars using the representative exchange rate as of each balance sheet date.

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 19 **Material Difference Between Israeli GAAP and US GAAP**

The Company's consolidated financial statements conform to accounting principles generally accepted in Israel (Israeli GAAP), which differ in certain respects from those generally accepted in the United States of America (US GAAP). With respect to these financial statements, the difference between Israeli and US GAAP relates to accounting for the effect of inflation.

In accordance with Israeli GAAP, the Company's consolidated financial statements through December 31, 2003 are expressed in terms of a uniform monetary unit the inflation-adjusted new Israeli shekel which follows an adjustment in respect of the changes in the Israeli CPI. (see Note 2A). This inflation adjustment was required under pronouncements of the Institute of Certified Public Accountants in Israel and reflects the effect of changes in the general price level in the Israeli economy. Such adjustment is not required under US

GAAP.

In accordance with Israeli GAAP, the Company's liability for severance pay is presented in net value, not including liability that is covered by the employees insurance policies. In addition, the Company does not present the deposited funds as an asset in the balance sheet.

In accordance with the US GAAP, the Company's liability for severance pay should be presented in the amount of NIS 835 thousand and the employees deposited funds should be acknowledged in the Company's financial statement as of December 31, 2006 as a asset in the amount of NIS 835 thousand.

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CORAL WORLD INTERNATIONAL LTD.

**Consolidated Financial Statements
as of December 31, 2006**

CORAL WORLD INTERNATIONAL LTD.

Consolidated financial statements
as of December 31, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
TO THE SHAREHOLDERS
OF CORAL WORLD INTERNATIONAL LTD.

We have audited the accompanying consolidated balance sheets of **Coral World International Ltd.** (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Board of Directors and management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Board of Directors and management of the Company, 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 Coral World International Ltd. as of December 31, 2006 and 2005, and the results of its operations, changes in shareholders' equity and changes in cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Fahn Kanne & Co.
Certified Public Accountants (Isr.)

Tel-Aviv, Israel, March 22, 2007

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CORAL WORLD INTERNATIONAL LTD.

CONSOLIDATED BALANCE SHEETS

	US Dollars	
(in thousands)	December 31,	
	2006	2005
A S S E T S		
Current assets		
Cash and cash equivalents (Note 2)	7,432	8,742
Accounts receivable:		
Trade (Note 3)	1,358	1,167
Other (Note 4)	4,034	994
Inventories	1,880	1,867
Total current assets	<u>14,704</u>	<u>12,770</u>
Long-term investments and other debit balances		
Long-term balance - related party	-	914
Investments in affiliated company (Note 5)	-	10,331
Funds in respect of employee rights upon retirement (Note 11)	1,092	901
Total long-term investments and other debit balances	<u>1,092</u>	<u>12,146</u>
Property and equipment, net (Note 6)	<u>52,007</u>	<u>15,065</u>
Deferred income taxes (Note 7)	<u>341</u>	<u>472</u>
Minority share of shareholders deficit of subsidiary	<u>998</u>	<u>497</u>
Total assets	<u>69,142</u>	<u>40,950</u>

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

CORAL WORLD INTERNATIONAL LTD.

CONSOLIDATED BALANCE SHEETS

(in thousands)	US Dollars	
	December 31, 2006	2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Credit from banking institutions (Note 8)	10,395	5,714
Accounts payable and other accruals:		
Trade	2,104	1,134
Other (Note 9)	2,026	2,308
Total current liabilities	14,525	9,156
Long-term liabilities		
Long-term loans (Note 10)	39,497	1,093
Deferred taxes (Note 7)	836	-
Liability for employee rights upon retirement (Note 11)	1,675	1,413
	42,008	2,506
Contingent liabilities, commitments and liens (Note 12)		
Minority interests	2,766	2,424
Total long-term liabilities	59,299	14,086
Shareholders' equity (Note 13)		
A. Management shares, \$2 par value; authorized 5,000 shares; issued and outstanding 2,500 shares	5	5
B. Management shares, \$2 par value; authorized 5,000 shares; issued and outstanding 2,500 shares	5	5
C. Preference shares, \$2 par value; authorized 1,000 shares; issued and outstanding 1,000 shares	2	2
Cost of company shares held by subsidiary	(21,000)	-
Additional paid-in capital	17,550	17,550
Retained earnings	14,374	10,444
Accumulated other comprehensive loss	(1,093)	(1,142)
Total shareholders' equity	9,843	26,864

Total liabilities and shareholders equity	69,142	40,950
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Benjamin Kahn
Member of the Board

Benzi Dolev
CFO

Date: March 22, 2007

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

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CORAL WORLD INTERNATIONAL LTD.

CONSOLIDATED STATEMENTS OF INCOME

US dollars

(in thousands, except share data)	Year ended December 31,		
	2006	2005	2004
Admission fees	17,378	15,475	14,597
Sales in shops and cafeterias	11,109	9,793	8,841
Commissions and others	604	523	425
	<u>29,091</u>	<u>25,791</u>	<u>23,863</u>
Cost of sales (Note 14)	(13,753)	(13,045)	(12,663)
Gross profit	15,338	12,746	11,200
Selling expenses (Note 15)	(2,284)	(2,139)	(2,443)
General and administrative expenses (Note 16)	(6,900)	(5,730)	(6,817)
Other expense, net (Note 17)	(287)	(728)	(28)
Operating income	<u>5,867</u>	<u>4,149</u>	<u>1,912</u>
Financing income (expenses), net	147	(865)	(32)
Income before taxes on income	<u>6,014</u>	<u>3,284</u>	<u>1,880</u>
Taxes on income (Note 18)	(1,677)	(1,533)	(78)
Losses from affiliated company	-	(14)	(451)
Minority interest, net	(407)	(55)	108
Net income	<u>3,930</u>	<u>1,682</u>	<u>1,459</u>
Earnings per share	<u>655</u>	<u>280</u>	<u>243</u>
Weighted average number of shares outstanding:	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>

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

CORAL WORLD INTERNATIONAL LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Number & amount of shares	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Cost of company shares held by a subsidiary	Total
US dollars (in thousands)						
Balance at January 1, 2004	12	17,550	(1,019)	7,303	-	23,846
Changes during 2004:						
Net income	-	-	-	1,459	-	1,459
Translation of financial statements of subsidiaries and affiliated companies	-	-	413	-	-	413
Total comprehensive income						1,872
Balance at December 31, 2004	12	17,550	(606)	8,762	-	25,718
Changes during 2005:						
Net income	-	-	-	1,682	-	1,682
Translation of financial statements of subsidiaries and affiliated companies	-	-	(536)	-	-	(536)
Total comprehensive income						1,146
Balance at December 31, 2005	12	17,550	(1,142)	10,444	-	26,864
Changes during 2006:						
Net income	-	-	-	3,930	-	3,930
Translation of financial statements of subsidiaries and affiliated companies	-	-	49	-	-	49
Total comprehensive income						3,979
Cost of company shares held by subsidiary	-	-	-	-	(21,000) ^(*)	(21,000)
Balance at December 31, 2006	12	17,550	(1,093)	14,374	(21,000)	9,843

(*) See Note 1B.

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

CORAL WORLD INTERNATIONAL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

US dollars

(in thousands)	Year ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income for the year	3,930	1,682	1,459
Adjustments required to reflect cash flows from operations:			
Depreciation and amortization	2,849	2,799	4,075
Increase in liability for employee rights upon retirement	136	303	484
Deferred taxes	836	221	(618)
Loss from affiliated company	-	14	451
Capital loss (gain) on sale of property and equipment, net	(11)	1	28
Minority interest, net	407	55	(108)
Exchange differences of long-term loan	(1,060)	(57)	223
Decrease (increase) in accounts receivable:			
Trade	(98)	(98)	191
Other	(574)	(225)	(205)
Decrease (increase) in inventories	56	348	(297)
Increase (decrease) in accounts payable and other accruals:			
Trade	709	246	(186)
Other	(518)	428	(290)
Net cash flows provided by operating activities	6,662	5,717	5,207
Cash flows from investing activities:			
Purchase of property and equipment	(11,345)	(801)	(536)
Investment in projects	-	-	(180)
Loans to affiliated companies	144	(5,391)	(1,579)
Proceeds from sale of property and equipment	33	6	47
Decrease (increase) in funds in respect of employee rights upon retirement	(110)	138	(546)
Acquisition of subsidiary (Appendix A)	1,168	-	-
Net cash flows used in investing activities	(10,110)	(6,048)	(2,794)
Cash flows from financing activities:			
Credit and short-term loans from banking institutions, net	7,722	(524)	(16)
Receipt of long-term credit from banking institutions	20,303	-	-
Repayment of long-term credit from banking institutions	(5,333)	(1,347)	(1,329)
Cost of company shares held by subsidiary	(21,000)	-	-
Net cash flows provided by (used in) financing activities	1,692	(1,871)	(1,345)
Effect of exchange rate changes on cash and cash equivalents	446	(160)	57

	_____	_____	_____
Increase in cash and cash equivalents	(1,310)	(2,362)	1,125
Balance of cash and cash equivalents - beginning of the year	8,742	11,104	9,979
Balance of cash and cash equivalents - end of the year	7,432	8,742	11,104

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

CORAL WORLD INTERNATIONAL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (cont.)

Appendix A: Acquisition of subsidiary

US dollars			
(in thousands)	Year ended December 31,		
	2006	2005	2004
Working capital (excluding cash and cash equivalents, net)	(2,233)	-	-
Property and equipment, net	(27,384)	-	-
Investment in an affiliated company	11,998	-	-
Long-term bank loans	19,285	-	-
Minority interest	(498)	-	-
	<u>1,168</u>	<u>-</u>	<u>-</u>

Supplementary disclosure of cash flow information

US dollars			
(in thousands)	Year ended December 31,		
	2006	2005	2004
Interest	<u>1,756</u>	<u>312</u>	<u>419</u>
Income taxes	<u>1,967</u>	<u>120</u>	<u>586</u>

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

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

A. General

1. Coral World International Ltd. (hereinafter "CWI") was incorporated on December 3, 1987 under the laws of the Island of Guernsey, Channel Islands, for purposes of owning and operating marine parks in various locations. Until May 2006, CWI was owned 50% by Ampal-American Israel Corporation and 50% by Marine Parks Holding Ltd. During May 2006, the subsidiary Red Sea Underwater Observatory Ltd. (hereunder: "RSUO"), paid an amount of NIS 94,500 thousand (US\$ 21 million) to Ampal-American Israel Corporation in respect of its shares.

In 2005, the subsidiary held 40% of the shares in Palma Aquarium Holdings B.V. (hereinafter: "Palma") during the third quarter of 2006 purchased an additional 15% of Palma in an amount of 852 thousand. Since that date, the financial statements of Palma are consolidated with those of the Company.

As used in these financial statements, the term "Company" refers to Coral World International Ltd. and its subsidiaries.

A list of the Company's investees can be found in the Appendix at the end of these financial statements.

2. Functional currency

The accompanying financial statements have been prepared in US dollars ("dollars" or "\$"). Substantially all of the revenues of CWI's subsidiaries are received, and substantially all of their operating costs are incurred, in local currencies. The functional currency of CWI is the US dollar and the functional currencies of its subsidiaries are the local currencies in which each such entity operates. The financial statements of the subsidiaries are translated into US dollars in accordance with the principles set forth in Statement of Financial Accounting Standards ("FAS") No. 52 of the Financial Accounting Standards Board of the United States ("FASB"). Assets and liabilities are translated from the local currencies to dollars at year-end exchange rates. Income and expense items are translated at average exchange rates during the year.

Gains or losses resulting from translation are included under the caption "accumulated other comprehensive loss".

	Year ended December 31,		
	2006	2005	2004
Exchange rates of certain currencies to the US dollar			
- New Israeli shekel	0.237	0.217	0.232
- Australian dollar	0.790	0.734	0.779
- Euro	1.317	1.183	1.364

3. Accounting principles

The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (US GAAP).

4. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets

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and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. In these financial statements, the term subsidiary refers to a company in which the Company exerts control of more than 50% and the financial statements of which are consolidated with those of the Company. Significant intercompany transactions and balances were eliminated in the consolidation; profits from intercompany sales, not yet realized outside the Group, were also eliminated.

C. Cash and cash equivalents

The Company considers all highly liquid investments to be cash equivalents. These include short-term (up to three month) bank deposits that are not restricted as to withdrawal or use, and short-term debentures, with original periods to maturity of not more than three months.

D. Concentration of credit risks allowance for doubtful accounts

Most of the Company's revenues are earned in Israel, Australia and Hawaii, and derive from a large number of customers.

In general, the exposure to the concentration of credit risks relating to trade receivables is limited, due to the relatively large number of customers and their wide geographic distribution.

The allowance for doubtful debts is calculated specifically for each debt, the collection of which is considered by management to be doubtful.

E. Inventories

Inventories are mainly jewelry, souvenirs and other goods, and are stated at the lower of cost or market. Cost is determined on the first-in first-out basis.

F. Investment in affiliated company

Investments in companies in which the Company has significant influence (ownership interest of between 20% and 50%) but less than a controlling interest, which are not subsidiaries, are accounted for by the equity method. Revenues from intercompany sales, not yet realized outside of the Company, were eliminated.

G. Property and equipment

Property and equipment are stated at cost, net of related investment grants. The assets are depreciated by the straight-line method, on the basis of their estimated useful life.

The Company's property and equipment are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont.)

H. Deferred income taxes

Deferred income taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and the tax bases of assets and liabilities under the applicable tax law. Deferred tax balances are computed using the tax rates expected to be in effect at the time when these differences reverse. Valuation allowances in respect of the deferred tax assets are provided if, based upon the weight of available evidence, it is more likely than not that all or a portion of the deferred income tax assets will not be realized.

As stated in Note 18D, the Israeli subsidiary has been granted approved enterprise status and, accordingly, upon distribution of dividends by this subsidiary to the Company, such dividends may be subject to tax. The Company does not intend on causing dividend distribution from this subsidiary. Accordingly, no additional tax has been taken into account in respect of such dividends.

Taxes which would apply in the event of disposal of investments in subsidiaries (all foreign subsidiaries) have not been taken into account in computing the deferred taxes, as it is the Company's policy to continue holding these investments, not to realize them.

I. Revenue recognition

1. Revenue from admission fees is recognized upon entrance of visitors to sites managed by the Company's subsidiaries.
2. Revenue from sales of merchandise is recognized when merchandise is supplied to the customer.
3. Revenue from commissions is recognized upon sale of the attraction in respect of which the commission is received.

J. Advertising expenses

Advertising expenses are charged to income as incurred.

K. Foreign currency transactions and balances

Balances denominated in, or linked to, foreign currency are stated on the basis of the exchange rates prevailing at the balance sheet date. For foreign currency transactions included in the statement of income, the exchange rates at transaction dates are used. Transaction gains or losses arising from changes in the exchange rates used in the translation of such balances are carried to financial income or expenses.

L. Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of all management and preferred shares outstanding during the year.

Diluted earnings per share are not presented, since the Company has no potential shares.

M. Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont.)

N. **Comprehensive income (loss)**

Comprehensive income (loss), presented in shareholders' equity, includes, in addition to net income (loss), translation adjustments of financial statements of subsidiaries and affiliated companies.

O. **Recently issued accounting pronouncements**

FAS 155 Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued FAS 155, *Accounting for certain Hybrid Financial Instruments*, an amendment of FASB statements No. 133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation.

This statement shall be effective for all financial instruments acquired or issued, or subject to remeasurement (new basis) after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided that no interim period financial statements have been issued for the financial year.

The Company does not expect the adoption of this Statement to have a material impact on its financial position and results of operations.

FAS 156 Accounting for Servicing of Financial Assets

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets* (FAS 156). The statement amends FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. Consistent with FAS No. 140, FAS 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract. However, the Statement permits a company to choose either the amortized cost method or fair value measurement method for each class of separately recognized servicing assets. The Statement is effective as of the beginning of a company's first fiscal year after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements. The Company plans to adopt FAS 156 at the beginning of 2007 and does not expect the adoption of this Statement to have a material impact on its financial position and results of operations.

FIN 48 Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognizes in its financial statements the impact of a tax position, if that position will more likely than not be sustained upon examination, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the 2007 calendar year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings.

The Company does not expect the adoption of this Statement to have a material impact on its financial position and results of operations.

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (cont.)

O. Recently issued accounting pronouncements (cont.)

FAS 157 Fair Value Measurements

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*. This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. FAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company has not determined the impact, if any, the adoption of this statement will have on its financial position and results of operations.

FAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FAS Statements No. 87, 88, 106 and 132(R)

In September 2006, the FASB issued FAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FAS Statements No. 87, 88, 106 and 132(R)*. FAS No. 158 requires the recognition of the funded status of a defined benefit plan in the statement of financial position, requires that changes in the funded status be recognized through comprehensive income, changes the measurement date for defined benefit plan assets and obligations to the entity's fiscal year end and expands disclosures. The recognitions and disclosures under FAS No. 158 are required as of the end of the fiscal year ending after June 15, 2007, for non-public entities. A non-public entity is also required to certain disclosures in the notes to the financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007. The new measurement date is effective for fiscal years ending after December 15, 2008. The Company is in the process of evaluating the impact of FAS No. 158 on its financial position and results of operations.

FAS 159 The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (SFAS No. 159)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (SFAS No. 159)*. This pronouncement permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The company is currently assessing the impact of SFAS No. 159 on its consolidated financial position and results of operations.

NOTE 2 CASH AND CASH EQUIVALENTS

Composition:

(in thousands)	US dollars	
	December 31,	
	2006	2005
NIS	109	251
US dollar	3,696	4,019
Australian dollar	1,494	1,858
Euro	2,133	2,614
	<u>7,432</u>	<u>8,742</u>

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 3 TRADE ACCOUNTS RECEIVABLE**Composition:**

(in thousands)	US dollars	
	December 31,	
	2006	2005
Open accounts	682	540
Credit card companies	619	555
Post-dated checks	89	102
	<u>1,390</u>	<u>1,197</u>
Less allowance for doubtful debts	(32)	(30)
	<u>1,358</u>	<u>1,167</u>

NOTE 4 OTHER ACCOUNTS RECEIVABLE

(in thousands)	US dollars	
	December 31,	
	2006	2005
Employees	118	151
Institutions	2,614	46
Prepaid expenses	698	459
Deferred taxes	35	30
Loan to minority in consolidated company (*)	100	-
Others	469	308
	<u>4,034</u>	<u>994</u>

(*) Represents an amount denominated in US dollars bearing interest at a rate of 6.63% per annum. The loan maturity is during fiscal year 2007.

NOTE 5 INVESTMENT IN AFFILIATED COMPANY**A. Palma Aquarium Holding B.V. (Palma)**

In 2005, the subsidiary held 40% of the shares in Palma and during the third quarter of 2006 purchased an additional 15% of Palma in an amount of 852 thousand. Since that date, the financial statements of Palma are consolidated with those of the Company.

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The balance of the investment in Palma as of December 31, 2005 was US\$ 10,331 thousand, of which US\$ 10,744 thousand is in respect of a loan granted to Palma in stages, from 2002 to 2005.

Summary financial information of Palma:

(in thousands)	US dollars	
	December 31, 2006	December 31, 2005
Current assets	-	4,811
Property and equipment	-	17,030
Other assets	-	3,450
Total assets	-	25,298
Total liabilities	-	26,328

B. See Note 17 regarding an affiliated company held by the Company in the past.

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 6 PROPERTY AND EQUIPMENT, NET

A. Composition:

(in thousands)	US dollars	
	December 31, 2006	2005
Buildings & installations	77,475	37,669
Machinery, equipment and sailing vessels	3,278	3,181
Office equipment & furniture	1,870	1,678
Motor vehicles	213	207
	<u>82,836</u>	<u>42,735</u>
Less accumulated depreciation	(30,829)	(27,670)
	<u>52,007(*)</u>	<u>15,065</u>

In the years ended December 31, 2006, 2005 and 2004, depreciation expenses were US\$ 2,849 thousand, US\$ 2,799 thousand and US\$ 3,052 thousand, respectively, and additional equipment was purchased in amounts of US\$ 11,298 thousand, US\$ 801 thousand and US\$ 536 thousand, respectively.

(*) In respect of property and equipment of a subsidiary acquired during 2006, see Consolidated Statements of Cash Flows Appendix A.

B. Leased lands

- The Eilat park is located on land leased by Red Sea Underwater Observatory Ltd. (RSUO), under an agreement with the Israel Lands Administration, for a period of 49 years, from October 20, 1974 until October 19, 2023, with an option for an additional 49 years.

Under another lease agreement with the Israel Lands Administration, RSUO leased a plot in the Eilat Tourist Center for a 49 year period, from May 5, 1991 until May 4, 2040, with an option for another 49 year period. RSUO erected a store on the plot, covering an area of 24 square meters.

- The marine park in Perth, Australia is located on a parcel of land leased from the Australian Government for a 21-year period, beginning in 1987, with an option for an additional 21-year period.

Exercise of the option has been approved by the Company's board of directors and is currently in the process of being implemented.

C. Depreciation rates

	%
Buildings and installations	4
Machinery, equipment and sailing vessels (mainly 10%)	6-20

Office equipment and furniture (mainly 20%)	5	33
Motor vehicles		15

D. Liens See Note 12B.

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 7 DEFERRED INCOME TAXES

A. Deferred income taxes:

	US dollars	
(in thousands)	December 31,	
	2006	2005
Short-term deferred tax assets net:		
Provisions for employee related obligations	35	30
Other	-	-
	<u>35</u>	<u>30</u>
Valuation allowance in respect of carryforward losses and deductions that may not be utilized	-	-
	<u>35</u>	<u>30</u>
Long-term deferred tax assets (liabilities) net:		
Property, plant and equipment	(1,076)	(2,435)
Provisions for employee related obligations	156	139
Timing difference for long-term and carryforward losses and deductions	196	2,558
In respect of tax losses of an approved enterprise carried forward	229	210
	<u>(495)</u>	<u>472</u>
Valuation allowance in respect of carryforward losses and deductions that may not be utilized	-	-
	<u>(495)</u>	<u>472</u>
	<u>(460)</u>	<u>502</u>

B. Presented in the balance sheet as follows:

	US dollars	
(in thousands)	December 31,	
	2006	2005

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Current assets	35	30
Long-term assets	341	472
Long-term liabilities	(836)	-
	<u>(460)</u>	<u>502</u>

C. Carryforward tax losses

Carryforward tax losses of an Israeli subsidiary as of December 31, 2006 amount to US\$ 2 million.

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 8 CREDIT FROM BANKING INSTITUTIONS

A. Composition:

US dollars			
(in thousands)	Interest rate as of 2006	December 31,	
		2006	2005
	%		
Bank credit unlinked	5.25	1,397	566
Short-term loans unlinked	6.5	71	109
Short-term loans dollar linked	5.8	7,000	-
Current maturities of long-term loans		1,927	5,039
		10,395	5,714

B. Lines of credit

Unutilized short-term credit lines of the Company and its subsidiaries as of December 31, 2006, totaled US\$ 3,023 thousand.

C. Liens see Note 12B.

NOTE 9 ACCOUNTS PAYABLE AND ACCRUALS OTHER

Composition:

US dollars			
(in thousands)	December 31,		
	2006	2005	
Advances from customers	107	59	
Employees and institutions in respect thereof	947	671	
Institutions	284	1,118	
Accrued expenses	529	193	
Others	159	267	
	2,026	2,308	

NOTE 10 LONG-TERM LOANS

A. Composition:

US dollars

(in thousands)	Interest rate as of 2006	December 31, 2006	December 31, 2005
	%		
Banks			
Euro (1)	Euribor+1.75	17,748	239
US dollar (2)	Libor+1.6	5,933	4,800
US dollar (3)	Libor+2.25	10,000	-
Australian dollar	7.65	575	773
Shareholders of consolidated companies Euro	Libor+1.875	7,168	320
		<u>41,424</u>	<u>6,132</u>
Less: current maturities		<u>(1,927)</u>	<u>(5,039)</u>
		<u>39,497</u>	<u>1,093</u>

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 10 LONG-TERM LOANS (cont.)

A. (cont.)

1. A Euro loan in an amount of 13,464 thousand, repayable in 39 equal quarterly installments commencing in March 2008, and one quote of 20% of the total on the date of expiration. In connection with this loan, a subsidiary undertook the following conventions: - Debt service cover ratio (RCSD):1.25 during the entire period of operations.
2. A dollar loan in an amount of US\$6,000 thousand, payable in equal monthly installments commencing in November 2006. The Credit Agreement requires the subsidiary to comply with certain financial conditions, including (a) Debt Service Coverage Ratio of not less than 3.0 to one; (b) Adjusted Equity of not less than \$6,000,000 as of December 31, 2006 and \$7,000,000 as of December 31, 2007 and thereafter; (c) Net Cash Reserve of not less than \$1,000,000. As of December 31, 2006, the Company has complied with the financial covenants contained in the Credit Agreement. An ALTA-insured first mortgage and a first lien on all leases, rents, other income, and tangible property are pledged as collateral under the terms of this Agreement.
3. A dollar loan in an amount of US\$10,000 thousand, repayable in four equal annual installments commencing in September 2007. In connection with this loan, the subsidiary undertook that during the initial loan utilization period, its total tangible shareholders' equity (as defined below) would not fall below NIS 100 million (US\$23.7 million) and that it would not fall below 25% of the Company's consolidated balance sheet, as presented in the Company's consolidated financial statements.

The term "tangible shareholders' equity" is defined as its paid-in capital, plus retained earnings, plus capital notes and various capital reserves, plus the balance of shareholder loans to the Company and/or loans granted to the Company on behalf of shareholders (including loans taken by the Company from the bank against deposits made by shareholders or anyone on behalf of the shareholders), less the balance of loans granted to shareholders, less the value of intangible assets such as goodwill, patents, etc., less investments in the Company.

The subsidiary undertook that during the initial utilization period of the loan, it will be in possession of a shareholders' loan in an amount of US\$6 million that was placed/will be placed at the disposal of the Company, including funds deriving from interest and linkage on these loans. For purposes of this item, a loan taken by the Company against deposits made in Union Bank by shareholders or parties on their behalf will be considered as a shareholders' loan.

As of the date of the financial statements, the subsidiary was in compliance with the aforementioned undertaking.

B. Maturity dates:

	US dollars
	December 31, 2006
First year - current maturities	1,927
Second year	4,270
Third year	4,354
Fourth year and thereafter	23,705
	34,256

No repayment date has been set

7,168

41,424

C. **Liens** see Note 12B.

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 11 LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENTS

- A.** Israeli labor laws generally require payment of severance pay upon dismissal of an employee or upon termination by the employee of employment in certain other circumstances. The severance pay liability of the Company to their employees, which reflects the undiscounted amount of the liability, is based upon the number of years of service and the latest monthly salary (one month's salary for each year worked), and is partly funded by insurance policies and by regular deposits with recognized severance pay funds.

The Company may make withdrawals from the amounts funded only for the purpose of paying severance pay.

Consolidated subsidiaries in Australia deposit 8% of their employees' salaries into recognized pension funds. This is the minimum required by Australian law.

- B.** The liability for employee severance pay includes, as of December 31, 2006, an amount of US\$ 569 thousand, which represents the liability to a former employee.

This debt is being paid-off in fixed monthly installments and is expected to be totally repaid through 2017.

C. Retirement plan

On January 1, 2003, the Hawaiian subsidiary adopted a 401(k) retirement savings plan for all eligible employees who satisfy age and length of service requirements. Eligible employees may make annual contributions limited to the total amount deductible under applicable provisions of the Internal Revenue Code.

On January 1, 2005, the Hawaiian subsidiaries amended the 401(k) retirement savings plan to include a Cash or Deferred Profit Sharing Plan as authorized under the Internal Revenue Code. Employer contributions to this plan amounted to US\$ 36,306 and US\$ 34,597 for 2006 and 2005, respectively.

NOTE 12 CONTINGENT LIABILITIES, COMMITMENTS AND LIENS

A. Commitments

1. Agreement with the Israel Nature Reserve Authority

RSUO entered into an agreement with the Israel Nature Reserve Authority (hereafter: the Authority) on February 26, 1973, whereby the RSUO received sole rights to build a tourist site in the Eilat Nature Reserve and the right of first refusal should the Authority grant permission to set up another underwater observatory in the Red Sea. The agreement has been amended several times, in light of RSUO's requests to expand the park and to add additional attractions. The last such amendment was on December 1, 1992.

RSUO's agreement with the Authority is subject to the lease agreement between the Company and the Israel Lands Administration regarding the area in which the site is located (see Note 6B).

Under the agreement, RSUO undertook to implement reasonable steps to ensure that nothing would be done at the site that would cause damage to or be of a nuisance to the public. RSUO is responsible for any third party damage inflicted in the area of the site and for any damage or injury caused to the Authority, any of its employees or agents at the site or at any other place as a result of performance of RSUO's work at the site or resulting from the operation of the site, if the damages were caused by RSUO, its employees or agents or by any visitors to the site.

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 12 CONTINGENT LIABILITIES, COMMITMENTS AND LIENS (cont.)

A. Commitments (cont.)

1. Agreement with the Israel Nature Reserve Authority (cont.)

Under the agreement, RSUO has to operate a site in the Eilat park seven days a week.

The agreement is unlimited in time and leaves no room for the Authority to initiate any changes in the consideration RSUO is required to pay for its license under the agreement. Should RSUO wish to add certain activity to its activities in the Eilat park, it will have to obtain permission to do so from the Authority.

In consideration for the license under the agreement, RSUO pays the Authority, as of the balance sheet date, the following:

- a. 5.0% of the price of net admission revenue to the Eilat park.
- b. 2.5% of the receipts from restaurants and souvenir sales.
- c. 4% of the receipts from cruises.
- d. US\$ 25,000 per annum as participation in the expenses of the Authority to employ a marine biologist engaged in the field of nature conservation.

2. Agreements to sell attractions

A subsidiary entered into agreements to set up attraction counters (hereinafter usage rights agreements). Under the usage rights agreements, the subsidiary rents space in which it will set up an attraction counter in the lobby of a hotel or a shopping mall, at which it will sell tickets to the Eilat Park and to other attractions in and around Eilat. The rental fee is computed as a percentage of sales, a flat fee, or some combination of the two methods. The subsidiary receives a commission on the sale of tickets to attractions.

B. Liens

1. A floating charge in an unlimited amount was registered by RSUO on all of its assets and on all income from the mortgaged assets, in favor of the State of Israel, to secure the repayment of investment grants received under the terms of the Israeli Law for the Encouragement of Capital Investment 1959.
2. A specific charge was registered on all RSUO's property rights in the Oceanarium project within the underwater observatory in Eilat, block 40032, part of parcel 2, lot a, in favor of the First International Bank of Israel.
3. A floating charge was registered on all the assets of Maui Ocean Center, Inc. (MOC), on the income from all the mortgaged assets and on all the subsidiary's rights under agreements and insurance policies, in favor of Bank of Hawaii, in respect of a loan granted by the bank to MOC. As of December 31, 2006, the balance of the loan secured by this charge was \$ 5,933 thousand.
4. A fixed charge, unlimited in amount, was registered on all the equipment, documents, securities and intangible property rights of the Australian subsidiaries and a floating charge, unlimited in amount on all the assets of those companies, in favor of a bank, to secure the repayment of loans from that bank. As of December 31, 2006, the balance of the loans secured by these charges was \$ 554 thousand.

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 12 CONTINGENT LIABILITIES, COMMITMENTS AND LIENS (cont.)

C. Contingent liabilities

Investment grant

Certain of RSUO's installations have received approved enterprise status under the Law for the Encouragement of Capital Investment 1959. Should RSUO not be able to prove that the investments it made were carried out in accordance with the terms of the approved plans, the Israel Investment Center is entitled to demand repayment of the investment grants received, plus interest and linkage differentials from the date the grants were received. Furthermore, RSUO will have to repay any tax benefits it received (accelerated depreciation and lower tax rates). As of the date of the preparation of the financial statements, RSUO has not received all the final permits from the Investment Center. In the opinion of RSUO management, RSUO is in compliance with the stipulated terms.

NOTE 13 SHAREHOLDERS EQUITY

- A. The A and B management shares are the only voting shares and hold equal voting rights. The holders of a majority of the A management shares elect one-half of the Board and the holders of a majority of the B management shares elect the other half. The C Preference Shares have no rights except to receive dividends, if declared.
- B. See Note 1A.

NOTE 14 COST OF SALES

US dollars			
(in thousands)	Year ended December 31,		
	2006	2005	2004
Payroll and related expenses	4,435	3,780	3,800
Depreciation and amortization	2,464	2,393	2,644
Consumption of inventory	4,317	4,113	3,354
Royalties to the Nature Reserves Authority (*)	262	220	233
Others	2,275	2,539	2,632
	13,753	13,045	12,663

(*) See Note 12A1.

NOTE 15 SELLING EXPENSES

US dollars			
(in thousands)	Year ended December 31,		
	2006	2005	2004

Advertising	1,112	1,091	1,391
Payroll and related expenses	674	626	641
Others	498	422	411
	<u>2,284</u>	<u>2,139</u>	<u>2,443</u>

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 GENERAL AND ADMINISTRATIVE EXPENSES

US dollars			
(in thousands)	Year ended December 31,		
	2006	2005	2004
Payroll and related expenses	3,324	3,256	3,085
Depreciation and amortization	399	406	1,458
Others	3,177	2,068	2,274
	<u>6,900</u>	<u>5,730</u>	<u>6,817</u>

NOTE 17 OTHER EXPENSES, NET

US dollars			
(in thousands)	Year ended December 31,		
	2006	2005	2004
Gain on sale of fixed assets	15	1	18
Loss from disposal of investment in an affiliated company (*)	-	(145)	(46)
Severance pay to a former employee (see Note 11B)	-	(584)	-
Expenses for prior years	(302)	-	-
	<u>(287)</u>	<u>(728)</u>	<u>(28)</u>

(*) In 1999, RSUO, together with others, established a company named Amazing World Ltd. (hereinafter **Amazing**), which set up a tourist attraction in Eliat. RSUO held 33% of the share capital of Amazing.

During 2004, Amazing was liquidated. In 2005 and 2004, RSUO paid amounts of US\$ 145 thousand and US\$ 46 thousand, respectively, in excess of its investment in Amazing.

As at December 31, 2005, RSUO does not have any liabilities or guarantees in respect to Amazing.

NOTE 18 TAXES ON INCOME

A. Composition:

US dollars

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(in thousands)	Year ended December 31,		
	2006	2005	2004
Current taxes	(961)	(1,182)	(619)
Deferred taxes	(836)	(221)	762
Previous years	120	(130)	(221)
	<u>(1,677)</u>	<u>(1,533)</u>	<u>(78)</u>

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 18 TAXES ON INCOME (cont.)

- B. Reconciliation of income tax presented in the financial statements to the theoretical tax computed at the average tax rate in the countries in which the Company operates:

(in thousands)	US dollars		
	Year ended December 31,		
	2006	2005	2004
Income before taxes on income	6,014	3,284	1,880
Average tax rate	0%	0%	0%
Taxes on income at statutory tax rates	-	-	-
Amounts in respect of which no deferred taxes were recorded	-	(139)	(1,150)
Capitalized income	(106)	397	204
Benefit granted in respect of Eilat residency	-	(77)	(83)
Income from approved enterprise	-	-	-
Capital gain	5	51	(6)
Non-deductible expenses	111	40	12
Taxes in respect of prior years	(120)	130	221
Tax rate differentials	2,061	1,117	905
Other differentials including those in respect of the Israeli Inflationary Tax Law	(274)	14	(25)
	1,677	1,533	78

C. Tax assessments

RSUO has received tax assessments that are considered final, for the years up to and including the 2002 tax year. The other subsidiaries have not been assessed since incorporation.

- D. The provision in RSUO's balance sheet was computed based on the fact that some of RSUO's installations were recognized as approved enterprises and are entitled to reduced tax rates and accelerated depreciation for stipulated periods of time, in accordance with the Israeli Law for the Encouragement of Capital Investments 1959. The following is a tabulation of the benefits granted under the approved plan:

1. Approved plan

Date of permit (including addendum)	Benefits track	Status	First benefit year
20.9.95	Grants	Final implementation report submitted	Not yet begun

2. Accelerated depreciation

RSUO was entitled to accelerated depreciation in respect of buildings and equipment of approved enterprises at rates of 400% and 200% of the ordinary depreciation rates on these assets, respectively, for the first five years of the operation of the assets.

3. Reduced tax rates

RSUO was liable for corporate tax at a rate of 10% (instead of 35%) on the taxable income attributable to the approved enterprises under the grants track for the entire benefits period, subject to the percentage of RSUO held by foreign investors.

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 19 TRANSACTIONS WITH RELATED AND INTERESTED PARTIES

A. Balances

	US dollars	
(in thousands)	December 31,	
	2006	2005
Long-term balance related party	-	914

B. Transactions

	US dollars		
(in thousands)	Year ended December 31,		
	2006	2005	2004
Participation of related parties in expenses	-	128	138

NOTE 20 ADDITIONAL INFORMATION REGARDING FINANCIAL INSTRUMENTS

- A. The Company has financial assets which include, inter alia, cash and cash equivalents and accounts receivable and other debit balances, and financial liabilities which include, inter alia, short and long-term credit from banking institutions and other accounts payable.

The fair value of the financial instruments included in the financial statements of the Company does not materially differ from their value as presented in the financial statements.

- B. The interest risk is the risk involved in changes in interest rates and the effect of such changes on the financial instruments presented as part of the short and long-term liabilities. See Notes 8 and 10.
- C. The Company operates internationally, which gives rise to exposure to risks from changes in foreign exchange rates in relation to the functional currencies of the applicable subsidiaries.

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 21 SEGMENT DATA

Geographic segments:

US dollars

(in thousands) Year ended December 31, 2006

	Israel	Netherlands(*)	U.S.A.	Australia	Others	Adjustments	Total
Revenues	9,543	-	13,623	5,925	400	(400)	29,091
Operating income	764	101	3,893	802	307	-	5,867
Financing income (expenses), net	(80)	(285)	345	172	(5)	-	147
Net income (loss)	695	(184)	2,738	789	303	(411)	3,930
Short-term liabilities	10,356	2,342	526	730	777	(2,285)	12,446
Long-term liabilities	11,675	31,249	8,726	575	760	(9,050)	43,935
Capital investments	289	10,389	371	296	-	-	11,345
Depreciation and amortization	464	-	1,773	612	-	-	2,849

(*) Including Palma Aquarium Holding B.V. See Notes 5 and 18.

US dollars

(in thousands) Year ended December 31, 2005

	Israel	Netherlands	U.S.A.	Australia	Others	Adjustments	Total
Revenues	8,777	-	12,304	4,710	400	(400)	25,791
Operating income (loss)	600	(193)	3,077	503	162	-	4,149
Financing income (expenses), net	(9)	(50)	(900)	127	(33)	-	(865)

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Net income (loss)	(213)	(243)	1,726	352	124	(64)	1,682
Short-term liabilities	2,996	510	514	788	1,415	(2,106)	4,117
Long-term liabilities	1,652	320	7,264	773	-	(2,464)	7,545
Capital investments	246	-	352	203	-	-	801
Depreciation and amortization	456	-	1,745	598	-	-	2,799

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CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 21 SEGMENT DATA (cont.)

Geographic segments (cont.):

US dollars							
(in thousands)	Year ended December 31, 2004						
	Israel	Netherlands	U.S.A.	Australia	Others	Adjustments	Total
Revenues	8,119	-	11,049	4,695	400	(400)	23,863
Operating income (loss)	438	(924)	2,209	298	(109)	-	1,912
Financing income (expenses), net	(74)	(30)	30	35	7	-	(32)
Net income (loss)	(95)	(954)	2,611	390	(103)	(387)	1,462
Short-term liabilities	3,506	24	466	706	1,438	(1,936)	4,204
Long-term liabilities	2,231	356	7,909	1,116	-	(2,509)	9,103
Capital investments	259	180	106	171	-	-	716
Depreciation and amortization	614	892	1,941	628	-	-	4,075
Assets serving the segments:							

US dollars			
(in thousands)	2006	December 31, 2005	2004
Israel	8,375	15,364	14,441
U.S.A.	20,700	21,291	22,982
Australia	6,997	7,038	7,272
Netherlands	42,992	83	144
Adjustments	(9,922)	(2,826)	(3,714)
	69,142	40,950	41,125

CORAL WORLD INTERNATIONAL LTD.

Appendix to the Financial Statements

List of Investee

List of Investee Companies	Percentage Control and ownership	
	2006	2005
	%	%
Subsidiary companies		
Red Sea Underwater Observatory Ltd.	86.152	86.152
Maui Ocean Center Inc.	100	100
Coral World Australia Pty Ltd.	100	100
Coral World Australia Management Pty Ltd.	100	100
Coral World Management Ltd.	100	100
Attractions Reservoir Ltd.	100	100
Vista Historica B.V.	75	75
Palma Aquarium Holdings B.V.	55	40
Palma the Mallorca Aquarium S.A.	100	100
Coral World Bahamas Hotels (1984) Limited	100	100
Red Sea Marineland Holding (1973) Ltd.	42.85	42.85
Red Sea Underwater Observatory Ltd.	13.848	13.848

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INDEPENDENT AUDITORS' REPORT**TO THE SHAREHOLDERS OF****BAY HEART LTD.**

We have audited the accompanying balance sheets of Bay Heart Ltd. (the Company) as of December 31, 2008 and 2007, and the consolidated balance sheets as of those dates, and the related statements of operations, changes in shareholders' equity and cash flows of the Company and on a consolidated basis for each of the two years in the period ended December 31, 2008. 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.

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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the omission of disclosures demanded by International Financial Reporting Standard 7 Financial Instruments : disclosures 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, 2008 and 2007, and the results of operations, changes in shareholders' equity and cash flows of the Company and on a consolidated basis for each of the two years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in Israel.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. With respect to these financial statements, the difference in the application of the latter is described in Note 21.

As described in Note 2A, the financial statements are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board.

The condensed consolidated financial information in U.S. dollars presented in Note 20 to the financial statements, prepared at the request of an investor, represents a translation of the Company's financial statements in nominal values, as stated in Note 20A. In our opinion, such translation into U.S. dollars was appropriately performed on the basis stated in Note 20A.

We draw your attention to Note 1C to the financial statements regarding the Company's business condition, the Company has ongoing losses, a working-capital deficit and shareholders' deficiency. As stated in that note, the continuance of the Company's operations and its ability to satisfy its short-term liabilities is contingent upon the attainment of financing from the shareholders and/or bank financing arrangements.

We draw your attention to Note 22 to the financial statements with respect to the restatement in accounting policy.

Brightman Almagor Zohar & Co.

Certified Public Accountants

Member firm of Deloitte Touche Tohmatsu

Haifa, Israel, January 28, 2009.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

CARMEL CONTAINER SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of Carmel Container Systems Ltd. (the Company) and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. 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 constitute approximately 10% of total consolidated assets as of December 31, 2005 and whose revenues constitute approximately 10% and 9% of total consolidated revenues for the years ended December 31, 2005 and 2004, respectively. The financial statements of this subsidiary were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for this subsidiary, is based on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations, changes in shareholder's equity and cash flows for each of the three years in the period ended December 31, 2006, in conformity with Israel generally accepted accounting principles, which differ in certain respects from those followed in the United States, as described in Note 22 to the consolidated financial statements.

As described in Note 2, the financial statements referred to above are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board.

Haifa, Israel,
March 5, 2007

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

To the Board of directors of
Chemship B.V.
Maarssen

AUDITOR'S REPORT

INTRODUCTION

We have audited the financial statements for consolidation purposes 2008 of Chemship B.V., Maarssen, which comprise the balance sheet as at 31 December, 2008 and 2007, the profit and loss account, the statement of changes in equity and the statement of cash flows for each of the two years in the period ended December 31, 2008 and the notes.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements in question in accordance with accounting principles generally accepted in the Netherlands. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements in question that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements in question based on our audit. We conducted our audit in accordance with Dutch law and the audit standards generally accepted by the Public Company Accounting Oversight Board (United States of America). This law and the regulations requires that we plan and perform the audit to obtain reasonable assurance whether the financial statements in question are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements in question. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements in question.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements in question give a true and fair view of the financial position of Chemship B.V. as at 31 December, 2008 and 2007 and of its results, statement of changes in equity and statement of cash flows for each of the two years in the period ended December 31, 2008 in accordance with accounting principles generally accepted in the Netherlands.

Rotterdam, 12 February 2009

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Mazars Paardekooper Hoffman Accountants N.V.

With its registered office in Rotterdam (KvK Rotterdam nr. 24402415).

To the Board of directors of
FinLog B.V.
Pernis

AUDITOR S REPORT

INTRODUCTION

We have audited the financial statements for consolidation purposes 2008 of FinLog B.V., Pernis, which comprise the balance sheet as at 31 December, 2008 and 2007, the profit and loss account, the statement of changes in equity and the statement of cash flows for each of the two years in the period ended December 31, 2008 and the notes.

MANAGEMENT S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements in question in accordance with accounting principles generally accepted in the Netherlands. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements in question that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements in question based on our audit. We conducted our audit in accordance with Dutch law and the audit standards generally accepted by the Public Company Accounting Oversight Board (United States of America). This law and the regulations requires that we plan and perform the audit to obtain reasonable assurance whether the financial statements in question are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements in question. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements in question.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements in question give a true and fair view of the financial position of FinLog B.V. as at 31 December, 2008 and 2007 and of its results, statement of changes in equity and statement of cash flows for each of the two years in the period ended December 31, 2008 in accordance with accounting principles generally accepted in the Netherlands.

Rotterdam, 20 February 2009

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Mazars Paardekooper Hoffman Accountants N.V.

With its registered office in Rotterdam (KvK Rotterdam nr. 24402415).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

Hod Hasharon Sport Center Limited

We have audited the balance sheets of Hod Hasharon Sport Center Limited (the Company) as of December 31, 2007 and 2006 and the related statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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 standards of the Public Company Accounting Oversight Board (United States of America) and with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 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, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and 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, 2007 and 2006 and the results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Somekh Chaikin
Certified Public Accountants (Isr)
Tel Aviv, Israel
February 26, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

Hod Hasharon Sport Center (1992) Limited Partnership

We have audited the balance sheets of Hod Hasharon Sport Center (1992) Limited Partnership (the Company) as of December 31, 2007 and 2006 and the related statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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 standards of the Public Company Accounting Oversight Board (United States of America) and with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 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, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and 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, 2007 and 2006 and the results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Somekh Chaikin
Certified Public Accountants (Isr)
Tel Aviv, Israel

February 26, 2008
