

AMPAL-AMERICAN ISRAEL CORP

FORM 10-K (Annual Report)

Filed 03/17/08 for the Period Ending 12/31/07

Address	555 MADISON AVENUE 20TH FLOOR NEW YORK, NY 10022
Telephone	2125939842
CIK	0000731859
Symbol	AMPL
SIC Code	6799 - Investors, Not Elsewhere Classified
Industry	Misc. Financial Services
Sector	Technology
Fiscal Year	12/31

**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, 2007

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.)

111 Arlozorov Street, Tel Aviv, Israel
(Address of Principal Executive Offices)

62098
(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

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, 2007, the last business day of the registrant's most recently completed second fiscal quarter was \$130,530,511 based upon the closing market price of such stock on that date. As of March 5, 2008, the number of shares outstanding of the registrant's Class A Stock, its only authorized and outstanding common stock, is 57,702,532.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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**ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007
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 2007

Acquisition of Gadot Chemical Tankers and Terminals Ltd.

On December 3, 2007, Ampal completed the purchase of a 65.5% controlling interest (63.66% on a fully diluted basis) in Gadot Chemical Tankers and Terminals Ltd. ("Gadot") through its wholly owned subsidiary Merhav Ampal Energy Ltd. ("MAE"), from Netherlands Industrial Chemical Enterprises B.V., for approximately NIS 348 million, or approximately \$91.2 million, pursuant to an agreement dated November 20, 2007.

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. Gadot's shares are listed on the Tel Aviv Stock Exchange. For further information regarding Gadot, see "-- Chemicals -- Gadot Chemical Tankers and Terminals Ltd."

Ampal funded the Gadot transaction with a combination of available cash and the proceeds of a new credit facility, dated November 29, 2007 (the "Credit Facility", attached hereto as Exhibit 10ff), between MAE and Israel Discount Bank Ltd. (the "Lender"), for approximately \$60.7 million. The Credit Facility is divided into two equal loans of approximately \$30.35 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 two

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 Common Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type.

Sugarcane Ethanol Production Project

On December 25, 2007, Ampal entered into an Option Agreement (the "Option Agreement") with Merhav M.N.F. Ltd. providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project (the "Project") in Colombia being developed by Merhav M.N.F. Ltd. The option expires on the earlier of December 25, 2008 or the date on which both (i) Merhav M.N.F. Ltd. 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 Option Agreement provides that the purchase price for any interest in the Project purchased by Ampal pursuant to the Option Agreement will equal (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the 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 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.

Ampal has 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 a Promissory Note, dated as of December 25, 2007, by Merhav M.N.F. Ltd. in favor of Ampal (the "Promissory Note"). Ampal has agreed to advance up to an additional \$10 million to fund the Project pursuant to the Promissory Note. The loan bears interest at an annual rate equal to LIBOR plus 2.25%, and will be convertible into all or a portion of the equity interest purchased pursuant to the option.

As security for the loan, Merhav M.N.F. Ltd. has pledged to Ampal, pursuant to a pledge agreement, dated December 25, 2007, between Merhav M.N.F. Ltd. and Ampal (the "Pledge Agreement", attached hereto as Exhibit 10ii), all of the shares of Ampal's Class A 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 M.N.F. Ltd. 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.

Wind Energy Project

On November 25, 2007, 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 Greece. The Company has approved a \$25 million budget for these projects.

East Mediterranean Gas Company

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 East Mediterranean Gas Co. S.A.E. ("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 M.N.F. Ltd., 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 M.N.F. Ltd.

Merhav M.N.F. Ltd. is a shareholder of Ampal and is wholly owned by Mr. Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholder group of Ampal.

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%).

On October 18, 2007, Ampal filed a “shelf” registration statement with the Securities and Exchange Commission. Under this registration statement, Ampal may, from time to time, sell Class A Stock, debt securities, warrants and units, from time to time in one or more offerings, up to a total public offering price of \$150 million. The registration statement was declared effective on October 31, 2007.

Conversion of Promissory Note by Merhav M.N.F. Ltd.

On September 20, 2007, Merhav M.N.F. Ltd. 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 issued to it as partial consideration for the purchase of a 5.9% interest in EMG by Ampal in December 2006, into 4,476,389 shares of Class A Stock of Ampal. See “Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters – Principal Shareholders of Ampal.”

Sale of Am-Hal Ltd.

On August 5, 2007, Ampal, through Ampal Industries Inc., a subsidiary of the Company, completed the sale of all of Ampal’s interest in Am-Hal Ltd. (“Am-Hal”), an indirect wholly owned subsidiary of Ampal, to Phoenix Holdings Ltd. (“Phoenix”) and Golden Meybar (2007) Ltd. (“Golden Meybar”), for an aggregate consideration of \$29.3 million, pursuant to the terms of an agreement dated July 10, 2007.

As a result of the sale, Ampal recorded a gain of approximately \$29.4 million (approximately \$21.7 million, net of taxes) and a reduction in assets and liabilities of approximately \$75.7 million and \$74.5 million, respectively, a reduction in income of approximately \$5.0 million and a reduction in pre-tax loss of approximately \$0.5 million as of September 30, 2007. The sale of Am-Hal is presented as discontinued operations in the accompanying financial statements.

Listing of Series A Notes

On August 1, 2007, Ampal filed a final prospectus with the Israeli Securities Authority and the Tel Aviv Stock Exchange (“TASE”) for the resale and listing of its Series A Notes on the TASE. The Series A Notes were sold to Israeli institutional investors in a private placement in November 2006 in the aggregate principal amount of NIS 250 million (approximately \$58 million). As of December 31, 2007, the amount of the principal of the notes is approximately \$66.6 million.

According to the prospectus, on August 19, 2007, Ampal paid the Series A Notes holders additional interest of 0.10959% (0.5% annually) for the period commencing May 20, 2006 and ending on August 9, 2007, which is the date the Series A Notes were registered for trade. The additional interest was paid to the Series A Note holders whose names appear in the Series A Note holders register kept by Ampal as of August 7, 2007.

Sale of Carmel Containers Ltd.

On May 21, 2007, the Company sold all of its equity method interest in Carmel Containers Ltd. (“Carmel”), which was an affiliated company, for an aggregate sales price of approximately \$4.6 million. No gain was recorded relating to the sale of Carmel since an impairment was recorded during the first quarter of 2007.

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, 2007, the principal business of each and the percentage of equity owned, directly or indirectly, by Ampal. Further 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 16 to Ampal’s consolidated financial statements included in this Report for the fiscal year ended December 31, 2007.

Industry Segment	Principal Business	Percentage as of December 31, 2007 ⁽¹⁾
Chemicals		
Gadot Chemical Tankers and Terminals Ltd.	Chemical Sales, Storage, Shipping and Transport	65.5
Energy		

East Mediterranean Gas Company	Natural Gas Provider & Pipeline Owner	12.5 ⁽²⁾
Real Estate		
Bay Heart Ltd.	Shopping Mall Owner/Lessor	37.0
Leisure-Time		
Country Club Kfar Saba Ltd.	Country Club Facility	51.0
Hod Hasharon Sport Center (1992) Limited Partnership	Country Club Facility	50.0
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, Merhav Ampal Energy Ltd.

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.

Gadot’s business is influenced by certain economic factors, which include (i) global changes in demand for chemicals used in 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 four main service sectors:

- Importing, marketing and sale of chemicals and other raw materials;
- Shipping;
- Logistical operations in Europe; and
- Ancillary services, including chemical storage and land transport.

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 of 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.

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. 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:

- importing oils and other liquid products which are used as food additives in meat and poultry;
- operating a sales agency in Israel for many companies selling a wide range of products, including chemicals, active medicinal agents, electronic components, rubber, polymers, minerals and materials for the textile and paint industry;
- marketing fine chemical agents used in research laboratories and biochemical industries and marketing of laboratory equipment;
- marketing and selling of chemicals in Western Europe; 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 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. Most sales are made by purchase orders which are supplied from the existing stock of Gadot. Gadot does not generally have backlog orders, as supply time is generally quick.

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 sacks 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 does not have information regarding its market share in the markets in which it operates.

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 ready for sale in a variety of packaging types and sizes;
- owning the only chemical loading dock capable of providing storage and transport in Israel;
- 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 of 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, 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.

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. Gadot uses a fleet of 25 ships, which are either leased or owned by Gadot, with loading capabilities ranging from 5,000 tons to 25,000 tons. The total capacity of Gadot's fleet as of December 31, 2007, was approximately 380,000 tons. The main shipping lines operated by Gadot are Israel – Northern Europe and Israel – United States, with many interim stops. Gadot also provides logistical support for ships anchored in the port of Haifa 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 ships are 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 crew safety. 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.

In recent years there has been a rise in demand for chemical shipping in tanker ships, which is 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.

Gadot renewed its annual and long-term shipping contracts with its customers for the year 2007 at an average increase of 5% to 10% of its fees. However, this increase will mostly be off-set by the increase in ship leasing costs.

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;
- 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 service sector.

Gadot leases the ships 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 ship 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. Ships are operated commercially by the lessee, by designating shipping lines and cargo for the ship, while the lessor operates the technical aspects of running the ship and crew.

Logistical Operations in Europe

Since the end of 2007, Gadot has offered 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.

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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 150,000 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.

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. This has caused a rise in profitability in this service sector, as prices have risen due to rising demand.

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 sale people in each country whose goal is to locate potential customers for logistical services.

Most of Gadot's competitors in this sector are local operators that have a limited spread of operations. Gadot estimates that it holds a 25% market share in the countries in which it operates. Gadot has an advantage over most of its competitors, due to the location and wide spread of its facilities and the scope and quality of its 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.

Ancillary Services

The ancillary services provided by Gadot include:

- land transport;
- storage, loading and off-loading of materials;
- ISO-tank transportation;
- agency services for shipping companies and docked ships; and
- real property.

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. In 2006, Gadot began supplying transport services to an Israeli gas company in immaterial amounts, but this business is expected to grow if Gadot is able to purchase additional tanker trucks adapted for this type of transport. Land transportation from chemical plants outside of Israel to Gadot's ships is provided by subcontractors.

Gadot currently owns a fleet of 72 trucks and 68 tanker trucks (of which 55 tanker trucks are capable of transporting hazardous materials). The fleet of trucks is generally in full use by Gadot, and occasionally it also has to borrow trucks from other companies in order to fulfill demand. The fleet of tanker trucks is generally not in full use, due to the amount of tankers Gadot owns and the highly specialized purpose of each tanker.

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

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 in the port of Haifa, which is the port used by Gadot's ships.

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.

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.

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.

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.

Gadot has one significant customer in this service sector, with revenues that are immaterial in amount.

Real Property

Gadot leases out office space in Haifa and Tel Aviv. The rent paid for these leases are immaterial in amount.

Gadot Dividend policy

In November 2003 Gadot's board of directors adopted a dividend policy according to which Gadot distributed 30% of its profits for each of the years 2004, 2005 and 2006, which amounted to NIS 17.0 million (\$3.9 million), NIS 24.2 million (\$5.4 million) and NIS 21.2 million (\$4.8 million), respectively. In 2007 Gadot distributed cash dividends in an aggregate amount of NIS 38,823,529 (\$9,621,692).

Energy

EAST MEDITERRANEAN GAS COMPANY ("EMG")

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's first project involves linking the Israeli energy market with the Egyptian national gas grid via an East Mediterranean pipeline. Fully financed and contracted, the pipeline and associated facilities have substantially completed construction with expected first gas delivery scheduled for the first quarter of 2008. EMG shall be 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 arrival of the gas to the Israeli market.

On November 29, 2007, Ampal and 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 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 M.N.F. Ltd., 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 M.N.F. Ltd.

As of December 31, 2007, 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.

Real Estate

In Israel, most land is owned by the Israeli government. In this Report, reference to ownership of land means either direct ownership of land or a long-term lease from the Israeli Government, which in most respects is regarded in Israel as the functional equivalent of ownership. It is the Israeli government's policy to renew its long-term leases (which usually have a term of 49 years) upon their expiration.

AM-HAL LTD. (“AM-HAL”)

Am-Hal was a wholly-owned subsidiary of the Company. Am-Hal develops and operates luxury retirement centers for senior citizens. In August 2007 the Company sold all of its interest in Am-Hal, which is presented as a discontinued operation in the accompanying financial statements. See “Item 1 – Business – Significant Developments During 2007.”

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. The Mall is currently undergoing 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 clubhouse.

The Club, which has a capacity of 2,000 member families, operated at capacity for the 2007 season. The Company owns 51% of Kfar Saba.

HOD HASHARON SPORT CENTER (1992) LIMITED PARTNERSHIP (“HOD HASHARON”)

Hod Hasharon operates a country club facility (the “H.H. Club”) in Hod Hasharon, a town north of Tel Aviv. The H.H. Club, which opened in July 1994, occupies a 7-1/4 acre lot which is leased for a 49 year period. The lease expires in 2043. The H.H. Club has a capacity of 1,600 member families and has operated at capacity for the past three years. In 2007, the H.H. Club distributed \$0.2 million to each of its partners. As of December 31, 2007, the Company holds a 50% direct interest in Hod Hasharon.

Capital Markets and Other Holdings

CARMEL CONTAINERS SYSTEMS LTD. (“CARMEL”)

Carmel is one of the leading Israeli companies in designing, manufacturing and marketing carton boards and packaging products. In May 2007 the Company sold all of its equity method interest in Carmel. The Company sold its interest in Carmel, which was accounted under the equity method. See “Item 1 – Business – Significant Developments During 2007.”

EMPLOYEES

The executive officers of Ampal are listed in “Item 11” below.

As of December 31, 2007:

- Ampal (Israel) Ltd. had 14 employees;
- Gadot, of which the Company owns a 65.5% interest, had 697 employees; and
- Country Club Kfar Saba Ltd., of which the Company owns a 51% interest, had 98 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 the Gaza Strip in June 2007. These developments have further strained relations between Israel and the PA. During the summer of 2006, Israel waged a war with the Hezbollah movement in Lebanon, which involved thousands of missile strikes in Northern Israel. This conflict was the most violent outbreak of hostilities in which Israel has been involved during the past several years. This situation had an adverse effect on the 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 29% for the 2007 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: 27% for the 2008 tax year, 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% (other than gains deriving from the sale of listed securities which are taxed at the corporate tax rate).

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 as of 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 (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%).

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 2006. Based on the tax returns filed by Ampal through 2006, 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 of stock 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 company 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 2007 – 29%) and a marginal tax rate (in 2007 – 48%) for individuals, whereas the portion of the gain attributed to the period after January 1, 2003 shall be taxed at the rate of 25%.

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.

The Income Tax Law (Adjustments for Inflation), 1985 ("Inflationary Adjustments Law"), which applies 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 Adjustments 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. On December 11, 2007, the Israeli Parliament approved a bill proposing an amendment to the Inflationary Adjustments Law that will effectively cancel such law as of the 2008 tax year. If such bill is enacted into law, as of the 2008 tax year most of the provisions of the Inflationary Adjustments Law will no longer be in force, except for certain transitional orders.

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, Ampal's Israeli subsidiaries are 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.

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, 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 65.5% stake in Gadot (63.66% on a fully diluted basis), an Israeli publicly traded company, and our existing 16.8% stake in East Mediterranean Gas Company (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 the Gaza Strip in June 2007. These developments have further strained relations between Israel and the PA. During the summer of 2006, Israel was engaged in a military conflict with the Hezbollah movement in Lebanon. This conflict was the most violent outbreak of hostilities in which Israel has been involved during the past several years. This situation had an adverse effect on the 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, 2007, the Company beneficially owns approximately 65.5% of Gadot (63.66% 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 Relating to Gadot") will significantly affect our financial condition and results of operations. 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, 2007, 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, unexpected delays in first gas delivery, 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.

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 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 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.

We are subject to the risks of doing business outside the U.S., 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 M.N.F. Ltd., De Majorca Holdings Ltd. and Di-Rapallo Holdings Ltd. beneficially owns approximately 57.69% 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 M.N.F. Ltd. 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 \$65 million (as of December 31, 2007) 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 March 5, 2008 the market price on NASDAQ was \$6.43 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 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.

Risks Associated with Gadot's 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.

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.

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 111 Arlozorov Street, Tel-Aviv. The lease is for a period of up to 2 years commencing on November 28, 2006. The annual rent for this lease is \$186,000.

We also lease an office at 10 Abba Even St., Herzelia Pituach, which is currently under renovation. The lease is for a period of 10 years commencing on January 24, 2007. The annual rent for this lease is \$130,000.

We also lease an 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 \$120,244. On March 31, 2004, the Company closed this office. The office space has been subleased.

Gadot leases an 11,000 square meter storage tank facility located in the Kishon port in Haifa from the port authority. The lease expires in 2022. Gadot also leases an additional 30,000 square meter area from the port authority located near the southern terminal in the port of Haifa in connection with its storage and loading services. See "Item 1 – Business – Chemicals – Gadot – Ancillary Services." This lease expires in 2014.

Gadot leases an additional 18,000 square meters area located adjacent to the southern terminal land for its storage facility and for its analytical and quality assurance laboratory. Gadot also leases a 1,100 square meter building in Ohr Akiva, Israel, a 7,500 square meter area in the Ashdod, Israel, industrial zone and a 6,300 square meter area in Kiryat Atta, Israel.

Gadot owns a 60,000 square meter area of land in Greece, which was occupied by a chemical terminal. This terminal was destroyed by a fire in July 2006.

Gadot owns one ship, with a loading capability of 12,300 tons. Gadot also leases four ships, with an aggregate loading capability of 49,324 tons. The lease period for two of the ships is until 2011. The lease period for one of the ships is until 2009, with an option to extend the term for two additional one-year periods. The lease period for one of the ships is until October 2008, with an option to extend the term for three additional one-year periods. The aggregate lease fees for the four leased ships in 2007 amounted to \$17 million. In 2008 the lease fees will amount to \$13,004,833 and will decrease to \$12,216,438 for the years 2009 and 2010 and thereafter will further decrease to \$2,804,500 for 2011. Gadot has ordered four additional ships to be built with a loading capability of 17,000 each, for a consideration of approximately \$28 million per ship. These ships will be delivered during 2009 and 2010.

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 2007 totaled \$199,914.

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. At this stage, the Company cannot estimate the impact this claim will have on it. In March 2008 the dispute was submitted to mediation by order of the court, with the consent of the parties.

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. Gadot has not made any provisions in its financial statements against these claims.

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. According to the estimate of the port authority, the cost of purifying the ground is estimated to be between \$377,000 and \$940,000. 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. Gadot has not made any provisions in its financial statements with respect to this matter.

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

At an annual meeting of shareholders called and convened on December 4, 2007, the following proposals were approved by the margins indicated below:

- Proposal to elect the eight 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:

	For	Withheld Authority
Yosef A. Maiman	33,436,902	471,658
Jack Bigio	33,390,012	518,548
Leo Malamud	33,389,512	519,048
Dr. Joseph Yerushalmi	33,389,912	518,648
Dr. Nimrod Novik	33,390,012	518,548
Yehuda Karni	33,404,264	504,296
Eitan Haber	33,306,727	601,833
Menahem Morag	33,306,827	601,733

- 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, 2007.

For	Against	Abstained
33,249,195	657,797	1,568

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 2007 and 2006, 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>
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
2006:		
Fourth Quarter	5.15	4.25
Third Quarter	5.03	4.44
Second Quarter	5.22	4.13
First Quarter	4.75	3.60

As of March 5, 2008, there were approximately 1,277 record holders of Class A Stock.

Ampal listed its Class A Stock on the Tel Aviv Stock Exchange on August 6, 2006, and since then it is a dually 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 2.01(d) of Regulation S-K, please see "Item 12" below.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended December 31, 2005, 2006 and 2007 and consolidated balance sheet data as of December 31, 2006 and 2007 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, 2003 and 2004 and the selected consolidated balance sheet data as of December 31, 2003, 2004 and 2005 have been derived from our unaudited consolidated financial statements not included herein.

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,				
	2007	2006 ⁽³⁾⁽¹⁾	2005 ⁽¹⁾	2004 ⁽¹⁾	2003 ⁽¹⁾
				Unaudited	Unaudited
	(U.S. dollars in thousands, except per share data)				
Revenues	\$ 37,797	\$ 14,544	\$ 21,519	\$ 22,672	\$ 43,273
Loss income from continuing operations	(13,578)	(6,027)	(5,916)	(18,502)	(7,996)
Income (loss) from discontinued operations, net of tax	21,344	(1,060)	(42)	117	(851)

Net income (loss)	\$ 7,766	\$ (7,087)	\$ (5,958)	\$ (18,385)	\$ (8,847)
Basic and diluted EPS ⁽²⁾ :					
Loss income from continuing operations	\$ (0.26)	\$ (0.35)	\$ (0.31)	\$ (0.94)	\$ (0.38)
Loss from discontinued operations, net of tax	\$ 0.42	\$ (0.05)	\$ --	\$ --	\$ (0.04)
	0.16	(0.40)	(0.31)	(0.94)	(0.42)
Total assets	\$ 774,789	\$ 401,683	\$ 211,485	\$ 304,947	\$ 354,367
Notes and loans and debentures payable	\$ 403,367	\$ 104,163	\$ 50,366	\$ 120,796	\$ 138,334

(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, 2004 and 2003 is based on net income (loss) after deduction of preferred stock dividends (in thousands) of \$2,438, \$191, \$200 and \$213, 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 \$783 and \$720 thousand for the years 2007 and 2006 respectively and impacted the EPS by \$(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 2007, see "Item 1 – Business – Significant Developments during 2007."

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.

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 off some or all of the investment. For more information as to how we make these determinations, see "Critical Accounting Policies."

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 the NIS or EURO change against the U.S. dollar, cumulative translation adjustments are likely to be effected in the shareholders' equity. As of December 31, 2007, the accumulated effect on shareholders' equity was an increase of approximately \$2.4 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 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, 2007 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 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, 2007, was acquired by Ampal and by a joint venture in which Ampal is a party in a series of transactions from Merhav M.N.F. Ltd. ("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 off 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

On January 1, 2002, Ampal adopted SFAS 144, "Accounting for the Impairment or Disposal of LongLived 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. The Company recognized an impairment of \$0.4 million in the nine months period ended September 30, 2007, as a result of indication of decrease in one of the Company's investment which was later sold.

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. We also do not provide for taxes on undistributed earnings of our foreign subsidiaries, as it is our intention to reinvest undistributed earnings indefinitely outside the United States. In 2007, there were no undistributed earnings from foreign subsidiaries.

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).

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 FAS123.

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

NEWLY ISSUED AND RECENTLY ADOPTED 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 Company is currently evaluating the impact, if any, the adoption of SFAS 157 will have on its financial statements.

FAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued FAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“FASB 159”). This standard permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As applicable to Ampal, this statement will be effective as of the year beginning January 1, 2008. Ampal is currently evaluating the impact that the adoption of FAS 159 would have on its consolidated 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.

SAB No. 110

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (“SAB 110”), relating to the use of a “simplified” method in developing an estimate of the expected term of “plain vanilla” share options. SAB 107 previously allowed the use of the simplified method until December 31, 2007. SAB 110 allows, under certain circumstances, to continue to accept the use of the simplified method beyond December 31, 2007. The Company believes that the adoption of SAB 110 will not have a material impact on its consolidated financial statements.

RESULTS OF OPERATIONS

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, decrease 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 was 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 Limited ("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. 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.

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 M.N.F. Ltd., 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.

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

	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
Total	\$ 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	\$ --
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 M.N.F. Ltd., which were issued in November and December of 2006, respectively. On September 20, 2007, Merhav M.N.F. Ltd. 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.

Fiscal year ended December 31, 2006 compared to fiscal year ended December 31, 2005:

General

The Company recorded a consolidated net loss of \$7.1 million for the fiscal year ended December 31, 2006, as compared to \$6.0 million loss for the same period in 2005. The increase in net loss is primarily attributable to a decrease in earnings of affiliates and a decrease in other income. The increase in net loss was partially offset by an increase in net realized and unrealized gains from marketable securities and investments, gain on sale of real estate, a decrease in loss from impairment of investments and a decrease in translation losses in 2006, as compared to 2005.

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. Loss for 2006 attributable to Am-Hal of \$1.1 million compared to a \$42 thousands loss for 2005, is recorded as a loss from discontinued operations.

Income from equity of affiliates decreased to \$1.6 million for the fiscal year ended December 31, 2006 as compared to \$6.7 million for the fiscal year ended in 2005. The decrease is primarily attributable to a decrease in the earnings of Ophir, which was sold during the second quarter of 2006 and did not record any earnings in the fiscal year ended December 31, 2006, as compared to a gain of \$6.1 million recorded by Ophir in the same period in 2005.

In the fiscal year ended December 31, 2006, Ampal recorded a gain of \$2.2 million on the sale of its building in Tel-Aviv (proceeds of \$4.6 million).

In the fiscal year ended December 31, 2006, the Company recorded \$0.4 million in other income, as compared to \$7.6 million for the same period in 2005. The decrease in other income is primarily related to the committed dividend for 2005 which had been fully paid on October 3, 2005 by Motorola Israel Ltd. as part of the sale of its investment in MIRS Communications Ltd. last year.

In the fiscal year ended December 31, 2006, the Company recorded \$4.4 million of net realized gain on investments, as compared to \$2.7 million of net realized loss in the same period in 2005. The gain recorded in 2006 was primarily attributable to the sale of Coral World International (\$4.2 million gain), additional proceeds from the sale of Modem Art (\$0.6 million gain), the sale of certain assets by PSINet Europe, one of the holdings of Ampal's investee company, TP (\$0.4 million gain) and the sale of certain assets by FIMI (\$0.2 million gain). These gains were partially offset by a loss recorded in connection with the sale of Ophir (\$1.0 million loss).

The Company recorded realized and unrealized gains from marketable securities in the amount of \$1.1 million in fiscal year ended December 31, 2006, compared to \$3.2 million in the same period in 2005.

In the fiscal year ended December 31, 2005, the Company recorded \$14.0 million of losses from the impairment of its investment in MIRS (\$13.3 million), Shiron Ltd. (\$0.6 million) and other loans (\$0.1 million). In the same period in 2006, the Company recorded no such impairments.

In the fiscal year ended December 31, 2006, the Company recorded a \$1.3 million translation gain, as compared to a \$2.6 million translation loss for the same period in 2005. The decrease in translation loss is related to a change in the valuation of the New Israeli Shekel as compared to the U.S. dollar.

Result of Operations Analyzed by Segments

	2006	2005
	(U.S. dollars in thousands)	
Revenues:		
Energy	\$ --	\$ --
Finance	4,203	12,412
Real Estate	2,423	233
Leisure-Time	6,317	2,208
Intercompany adjustments	(9)	--
	<u>12,934</u>	<u>14,853</u>
Equity in earning of affiliates	1,610	6,666
	<u>14,544</u>	<u>21,519</u>
Total	\$ 14,544	\$ 21,519

In the fiscal year ended December 31, 2006, the Company recorded \$14.5 million in revenue 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 \$1.6 million in equity, as compared to \$21.5 million for the same period in 2005 which was comprised of \$12.4 millions in the Finance segment, \$0.2 million in the Real Estate segment, \$2.2 million in the Leisure-Time segment and \$6.7 million in equity. The decrease in the Finance segment revenue is primarily related to the dividends payable by Motorola Israel Ltd. to the Company as part of the sale of its investment in MIRS Communications Ltd. which were fully paid on October 3, 2005, and no similar dividend was payable in 2006. The increase in revenue in the Real Estate segment is primarily related to the gain of \$2.2 million from the sale of building on Arlozorov Street in Tel-Aviv (the "Arlozorov Building") and the increase in revenue in the Leisure-Time segment is primarily related to the gain of \$4.2 million from the sale of Coral World International.

Expenses:			
Finance	\$	15,723	\$ 32,737
Real Estate		272	311
Leisure-Time		1,913	1,963
Total	\$	17,908	\$ 35,011

In the fiscal year ended December 31, 2006, the Company recorded \$17.9 million in expenses 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, as compared to \$35.0 million expense for the same period in 2005 which was comprised of \$32.7 millions in the Finance segment, \$0.3 million in the Real Estate segment and \$2.0 million in the Leisure-Time segment. The decrease in Finance expense is primarily attributable to the \$14.0 million losses from the impairment of its investments which the Company recorded in 2005 and did not record such impairment in 2006 and the decrease in translation loss to \$1.3 million gain in 2006 compared to \$2.6 million loss in 2005 which related to a change in the valuation of the New Israeli Shekel as compared to the U.S. dollar.

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, 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)
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
(U.S. dollars in thousands, except per share data)				
Unaudited				
Fiscal Year Ended December 31, 2006				
Revenues	\$ 3,292	\$ 6,195	\$ 4,025	\$ 1,032
Net interest expense	(411)	(371)	(112)	(1,955)
Income (loss) from continuing operations	(570)	1,366	(1,770)	(6,035)
Income (loss) from discontinued operations, net of tax	(5)	15	(25)	(63)
Net (loss) income	(575)	1,381	(1,795)	(6,098)
Basic and Diluted EPS:				
Loss from continuing operations ⁽¹⁾	(0.03)	0.06	(0.18)	(0.19)
Discontinued operations	--	--	--	--

Earnings (Loss) per Class A share	(0.03)	0.06	(0.18)	(0.19)
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(1) After deduction of dividends on the 4% and 6 1/2% Cumulative Convertible Preferred Stock in 2006 (in thousands) of \$2,438.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

On December 31, 2007, cash, cash equivalents and marketable securities were \$66.7 million, as compared with \$37.1 million at December 31, 2006. The increase in cash, cash equivalents and marketable securities is primarily attributable to the sale of Am-Hal, Carmel and proceeds from the exercise of warrants. This increase in cash flow was partially offset by the investments in Gadot, EMG, Bay Heart and FIMI.

As of December 31, 2007, the Company had \$22.5 million of marketable securities as compared to \$0.4 million in 2006.

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 to further utilize these sources of cash. The Company may need to draw upon its 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 \$12.0 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.

Cash flows from operating activities

Net cash used in operating activities totaled approximately \$23.6 million for the fiscal year ended December 31, 2007, as compared to approximately \$29.8 million provided by operating activities at the same period in 2006. The decrease in cash used in operating activities is primarily attributable to (1) the \$5.8 million of net investment in marketable securities in 2007 (\$23.8 million investment offset by \$18.0 million proceeds) as compared to \$39.6 million of net proceeds from the sale of marketable securities (\$89.6 million proceeds offset by \$50.0 million invested) in the same period of 2006; and (2) the increase in interest expense due to the notes issued to institutional investors in Israel and the Convertible Promissory Note issued to Merhav M.N.F. Ltd., which were issued in November and December of 2006, respectively.

Cash flows from investing activities

Net cash used in investing activities totaled approximately \$149.7 million for the fiscal year ended December 31, 2007, as compared to approximately \$107.3 million used in investing activities for the same period in 2006. The increase in cash used in is primarily attributable to the investment of \$95.4 million in EMG (see Investments below), the investment of \$91.2 million in Gadot (\$78.2 million net of cash), investment in EMG (\$5.8 million), investment in Bay Heart (\$2.4 million) and capital improvement in Am-Hal. This increase was offset by the proceeds from the sale of Am-Hal, Carmel, FIMI, by the sale of a ship by Gadot in the amount of \$6.9 million and by deposit collected of \$3.6 million. The cash used in investing activities during 2006 is primarily attributable to the Company's investments in EMG (\$52.7 million), Bay-Heart (\$1.4 million) and FIMI (\$0.4 million) offset by the proceeds at the amount of \$23.0 million from the sale of CWI, Ophir, Modem Art and certain assets of TP and FIMI.

Cash flows from financing activities

Net cash provided by financing activities was approximately \$179.6 million for the fiscal year ended December 31, 2007, as compared to approximately \$86.2 million of net cash provided by financing activities for the same period in 2006. In 2007, the Company received a \$60.7 million loan from Israel Discount Bank Ltd. to finance the purchase of Gadot, received \$15.2 million from Union Bank Of Israel Ltd. ("UBI"), received \$95.4 million from partnership minority to finance the additional purchase of EMG, paid down notes payable to Bank Hapoalim Ltd. ("Bank Hapoalim") in the amount of \$37.0 million, received \$27.2 million under a loan facility with Bank Hapoalim and from exercise of warrants in the amount of \$18.0 million. In 2006, the Company paid down its existing notes payable to Bank Hapoalim in the amount of \$6.0 million while using its own cash and borrowing an additional \$0.7 million under a loan facility with Bank Hapoalim. In November 2006, the Company issued notes to institutional investors in Israel in the principal aggregate amount of approximately \$58.0 million (\$56.4 million after deducting related expense) in accordance with Regulation S under the Securities Act of 1933, as amended. In December 2006, the Company completed a private placement of the sale of 8,142,705 shares of its Class A Stock for aggregate proceeds of \$37.8 million (\$36.7 million after

deducting related expenses) to certain non-U.S. institutional investors in accordance with Regulation S under the Securities Act of 1933, as amended. In 2006, the Company paid down its existing notes payable to banks in the amount of \$11.2 million and paid a dividend to the holders of its preferred stock in the aggregate amount of \$2.3 million while using its own cash and borrowed an additional \$6.0 million.

Investments

On December 31, 2007, the aggregate fair value of trading and available-for-sale securities were approximately \$22.4 million, as compared to \$0.4 million at December 31, 2006. The increase in 2007 is mainly attributable to the purchase of Gadot and to the tradable securities held by Gadot.

a) 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 Chemical Tankers and Terminals Ltd. (“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.

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
<hr/>	
U.S. dollars in thousands except earning per share (unaudited)	
<hr/>	

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 EMG 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.

On November 29, 2007, Ampal and 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 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 M.N.F. Ltd., 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 M.N.F. Ltd., which was accounted for as a transfer of assets between entities under common control, which resulted in Merhav M.N.F. Ltd. transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav M.N.F. Ltd.'s operations, Merhav M.N.F. Ltd. 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 or by IIF. 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 M.N.F. Ltd.

For more information regarding our interest in EMG, see "Item 13."

3. Wind Energy Joint Venture

On November 25, 2007, 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 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 an Option Agreement (the "Option Agreement") with Merhav M.N.F. Ltd. providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project (the "Project") in Colombia being developed by Merhav M.N.F. Ltd. The option expires on the earlier of December 25, 2008 or the date on which both (i) Merhav M.N.F. Ltd. 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 Option Agreement provides that the purchase price for any interest in the Project purchased by Ampal pursuant to the Option Agreement will be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the 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 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.

Ampal has 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 a Promissory Note, dated as of December 25, 2007, by Merhav M.N.F. Ltd. in favor of Ampal (the "Promissory Note"). Ampal has agreed to advance up to an additional \$10 million to fund the Project pursuant to the Promissory Note. The loan bears interest at an annual rate equal to LIBOR plus 2.25%, and will be convertible into all or a portion of the equity interest purchased pursuant to the option.

As security for the loan, Merhav M.N.F. Ltd. has pledged to Ampal, pursuant to a pledge agreement, dated December 25, 2007, between Merhav M.N.F. Ltd. and Ampal, all of the shares of Ampal's Class A 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 M.N.F. Ltd. 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.

For more information regarding our investment in Colombia, see "Item 13."

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.

b) In 2007, Ampal made the following dispositions:

1. On May 21, 2007, the Company closed the sale of all of its holdings in Carmel, 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.

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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. 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.

Debt

Notes issued to institutional investors in Israel, the convertible note issued to Merhav M.N.F. Ltd. 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, UBI and Israel Discount Bank Ltd. As of December 31, 2007, the outstanding indebtedness under these bank loans totaled \$101.9 million and the loans mature through 2008-2019.

On February 26, 2007, the Company entered into a bank loan with UBI. Pursuant to the loan agreement, on April 2, 2007, UBI granted the Company a \$10 million loan, which bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008. The loan is secured by a pledge of certain assets. On December 31, 2007, UBI granted the Company two loans of equal amount, for a total amount of NIS 20 million (approximately \$5.2 million). These loans bear interest at the rate of 4.6% and 4.8%, respectively, linked to the Consumer Price Index in Israel. Both loans are for a term of two years and interest will be paid semi-annually.

On April 26, 2007, the Company repaid its existing loans from Bank Hapoalim and signed a new loan agreement. The new agreement provides for a secured \$27 million dollar loan facility to the Company at the value as of March 30, 2007, to be used for general corporate purposes. On March 30, 2007, the Company borrowed the full \$27 million under the 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 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, 2007, the Company is in compliance with its debt covenants.

On November 29, 2007, as part of the agreement between Ampal and IIF, leading a group of institutional Investors, the Company received \$95.4 million to purchase a 4.3% interest in EMG, through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership, from Merhav. The loan is unlinked to the Consumer Price Index in Israel, bears no interest and is repayable upon agreement by both parties, but with a

minimum term of one year.

A short term loan from Bank Hapoalim in the amount of \$3.5 million bears interest of 7.1% and is to be repaid by March 31, 2008.

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 million (approximately \$58 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, 2007, the outstanding debt under the notes amounts to \$66.6 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, 2007, the outstanding amount of the deposit was \$7.5 million. Prior to the issuance of the debentures, Midroog Ltd., an affiliate of Moody's Investors Service, rated the Company as A3.

On August 1, 2007, Ampal filed a final prospectus with the Israeli Securities Authority and the TASE for the resale and listing with the TASE of its Series A Notes. According to the prospectus, on August 19, 2007, Ampal paid the Series A Notes holders additional interest of 0.10959% (0.5% annually) for the period commencing May 20, 2006 and ending on August 9, 2007, which is the date the Series A Notes were registered for trade. The additional interest was paid to the Series A Note holders whose names appear in the Series A Note holders register kept by Ampal as of August 7, 2007. 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.

Ampal funded the Gadot transaction with a combination of available cash and the proceeds of a new credit facility, dated November 29, 2007 (the "Credit Facility"), between MAE and Israel Discount Bank Ltd. (the "Lender"), for approximately \$60.7 million. The Credit Facility is divided into two equal loans of approximately \$30.35 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 two 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.

In addition, as part of the EMG transaction in December 2006, the Company issued to Merhav M.N.F. Ltd. the Convertible Promissory Note in the principal amount of \$20 million, which at the option of Merhav M.N.F. Ltd., was payable in cash, additional shares of Ampal Class A Stock (based on a price per share of \$4.65 per share), or a combination thereof. 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 M.N.F. Ltd. On September 20, 2007, Merhav M.N.F. Ltd. 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. See "Changes in Shareholders Equity" below.

Other long term borrowings in the amount of \$0.2 million are linked to the Consumer Price Index in Israel, mature between 2007 and 2010 and bear annual interest of 5.7%.

As of December 31, 2007, Gadot had \$0.7 million outstanding under its convertible debentures. Gadot's debentures were listed on the Tel Aviv Stock Exchange ("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 in two equal annual installments on December 5, 2008 and 2009. The debentures are convertible into ordinary shares of Gadot, commencing from the date they were listed on the TASE until December 5, 2009, such that as of December 31, 2007, 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, 2007, Gadot had \$12.0 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, 2007, Gadot, a 65.5% subsidiary of Ampal, has short term loans payable in the amount of \$96.5 million and long term loans payable in the amount of \$30.1 million. The various short term loans payable are either unlinked or linked to the Euro and bear interest at rates between 5.73% to 6.09%. The various long term loans payable are either unlinked, linked to the Consumer Price Index in Israel or linked to the Euro and bear interest at rates between 4.82% to 6.90%.

The weighted average interest rates and the balances of these short-term borrowings at December 31, 2007 and December 31, 2006 were 6.3% on \$136.6 million and 6.3% on \$21.2 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	\$ 187,405		\$ 131,341	\$ 31,781	\$ 24,283
Debentures	\$ 78,608		\$ 5,662	\$ 32,318	\$ 40,628
Convertible Debentures	\$ 742		\$ 742		
Short-Term Debt	\$ 136,612	\$ 136,612			
Expected interest payment ⁽³⁾	\$ 59,845	\$ 16,257	\$ 19,770	\$ 14,073	\$ 9,745
Capital Call Obligation ⁽¹⁾	\$ 2,800	\$ 2,800			
Operating Lease Obligation ⁽²⁾	\$ 36,929	\$ 13,735	\$ 13,232	\$ 3,724	\$ 6,238
Capital Lease Obligation					
Purchase Obligations					
Other Long-Term Liabilities Reflected on the Company's Balance Sheet Under GAAP					
Total	\$ 502,941	\$ 169,404	\$ 170,747	\$ 81,896	\$ 80,894

- (1) See Note 19(d) to Ampal's consolidated financial statements included in this Report for the fiscal year ended December 31, 2007.
- (2) See Note 19(a) to Ampal's consolidated financial statements included in this Report for the fiscal year ended December 31, 2007.
- (3) In calculating estimated interest payments on outstanding debt obligations, the Company assumed an exchange rate as at December 31, 2007 of NIS 3.846 to 1 U.S. dollar.

As of December 31, 2007, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$27.4 million. This includes:

- \$5.2 million guarantee on indebtedness incurred by Bay Heart (\$0.3 million of which is recorded as a liability in the Company's financial statements at December 31, 2007) in connection with the development of its property. Bay Heart recorded losses in 2007 as a result of decreased rental revenues. 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 1960 Ltd. as described in Item 3 of this Report.
- \$ 21.1 million guarantees of 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, 2007, the Company had open foreign currency forward exchange contracts to purchase U.S. dollars and sell Euros in the amount of \$9 million.

CHANGES IN SHAREHOLDERS EQUITY

During the second, third and fourth quarter of 2007, the shareholders' equity changed as follows:

As of December 31, 2007, the Company issued 3,870,351 Class A Shares to investors that exercised warrants granted to them by the Company on December 28, 2006. The total proceeds from the exercise of warrants were \$18.0 million.

On September 20, 2007, Merhav M.N.F. Ltd. 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 issued to it as partial consideration for the purchase of a 5.9% interest in EMG by Ampal in December 2006, into 4,476,389 shares of Class A Stock of Ampal. The issuance of the 4,476,389 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.

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, 2007, and are sensitive to the above market risks.

During the fiscal year ended December 31, 2007, 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, 2006, other than exposure to the Euro exchange rate due to the Company's acquisition of Gadot.

Interest Rate Risks

At December 31, 2007, the Company had financial assets totaling \$44.6 million and financial liabilities totaling \$403.3 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, 2007, the Company did not have fixed rate financial assets and had variable rate financial assets of \$44.6 million. A ten percent decrease in interest rates would not increase the unrealized fair value of the fixed rate assets.

At December 31, 2007, the Company had fixed rate debt of \$192.4 million and variable rate debt of \$211.3 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 \$1.5 million.

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The net decrease in earnings and cash flow for the next year resulting from a ten percent interest rate increase would be approximately \$1.3 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, 2007, the Company had open foreign exchange forward contracts to purchase U.S. Dollars and sell Euros in the amount of \$9 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 \$1.9 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 \$21.8 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 \$2.8 million.

Equity Price Risk

The Company's investments at December 31, 2007, included marketable securities which are recorded at a fair value of \$22.5 million, including a net unrealized gain of \$0.2 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 \$2.2 million. There will be no impact on cash flow resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges.

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 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, 2007 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As permitted, we have excluded from our evaluation the 2007 acquisitions of Gadot, which is included in our 2007 Consolidated Financial Statements and which represented 44.3% of consolidated total assets and 135.1% of consolidated shareholders' equity as of December 31, 2007, and 84.5% of consolidated net revenues and \$2.5 million gain out of \$13.6 million loss from continuing operations for the year ended December 31, 2007. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 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.

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.

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 March 5, 2008:

<u>Name</u>	<u>Position</u>
Yosef A. Maiman	President, Chief Executive Officer, Chairman of the Board of Directors
Jack Bigio	Director
Leo Malamud ⁽¹⁾	Director
Dr. Joseph Yerushalmi ⁽¹⁾	Director

Dr. Nimrod Novik	Director
Yehuda Karni (1)(2)(3)(4)	Director
Eitan Haber (2)(3)(4)	Director
Menahem Morag (2)(3)(4)	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
Ofer Gilboa	Vice President - Investments
Giora Bar-Nir	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.
- (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 2007, the Board met 14 times and acted twice by written consent; the Executive Committee acted once by written consent; the Audit Committee met 6 times and did not act by written consent. The Stock Option and Compensation Committee met once and acted once by written consent. The Special Committee met twice and did not act by written consent. All directors but one attended more than 75% of the aggregate of (1) the total number of Board meetings held during the period in 2007 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 2007 (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, 62, 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 M.N.F. Ltd. ("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 Ten, 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.

JACK BIGIO, 42 has been a director of Ampal since March 6, 2002. Mr. Bigio served as the President and Chief Executive Officer of Ampal between April 25, 2002 and September 30, 2006. From 1996 until April 2002, Mr. Bigio served as Senior Vice President – Operations and Finance of Merhav and from October 2006 Mr. Bigio serves as Senior Vice President of Merhav. Mr. Bigio is also a director of Eltek, a member of the Board of Israel-America Chamber of Commerce & Industry and a member of Young Presidents' Organization.

LEO MALAMUD, 56, has been a director of Ampal since March 6, 2002. Since 1995 Mr. Malamud is Senior Vice President of Merhav M.N.F. Ltd. Mr. Malamud is also a Director of Gadot, Channel 10, 10 News Ltd. and Nana 10 Ltd.

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

Dr. NIMROD NOVIK, 62, has been a director of Ampal since September 19, 2006. Dr. Novik has been Senior Vice President of Merhav M.N.F. Ltd. since 1995, responsible for Middle East projects (including the MIDOR petroleum refinery in Egypt and the current EMG project for the export of Egyptian natural gas to Israel) as well as for corporate and government relations. He is a member of the board of EMG and of

Channel 10 News Corp. 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. Mr. Karni was a senior partner in the law firm of Firon Karni Sarov & Firon, from 1961 until his retirement in 2000.

EITAN HABER, 68, has been a director of Ampal since August 16, 2002. Mr. Haber was the Head of Bureau for the former Prime Minister of Israel, Yitzhak Rabin, from July 1992 until November 1995. Since 1996, Mr. Haber has been the President and Chief Executive Officer of Geopol Ltd., which represents the Korean conglomerate Samsung Aircraft and Industries in Israel and the Middle East. Since 2001, Mr. Haber has also served as CEO of Kavim Ltd., a production and project development company. Mr. Haber is a member in the Board of Directors of Africa Israel Ltd. and "Israel Experience Co."

MENACHEM 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. Since 2003 until 2006, Mr. Morag served as the Head of the Council of the Pensioners Association of the Israeli Prime Minister's office in Tel Aviv. Mr. Morag has also served as a director in Palram Industries from 2004 until 2006, and from 2005 until 2006 he was the CEO 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.

IRIT ELUZ, 41, has been the Chief Financial Officer and Senior Vice President – Finance and Treasurer since October 2004. From May 2002 until October 2004, Ms. Eluz was Chief Financial Officer and Vice President – Finance and Treasurer. Ms. Eluz is a Director of Gadot. Since July 2006 Ms. Eluz is a Director of Kamor Ltd. From January 2000 until April 2002, Ms. Eluz was the Associate Chief Financial Officer of Merhav. From June 1995 until December 1999, Ms. Eluz was the Chief Financial Officer of Kamor Group.

YORAM FIRON, 39, has been Secretary and Vice President – Investments and Corporate Affairs since May 2002. From 1998 until 2002, Mr. Firon was a Vice President of Merhav and before that a partner in the law firm of M. Firon & Co..

AMIT MANTSUR, 38, has been Vice President – Investments since March 2003. Since August 2006 Mr. Mantsur is a Director of Valor Computerized Systems Ltd. From September 2000 until December 2002, Mr. Mantsur served as Strategy & Business Development Manager at Alrov Group. From February 1997 until September 2000, Mr. Mantsur was a projects manager at the Financial Advisory Services of KPMG Somekh Chaikin.

OFER GILBOA, 43, has been Vice President – Investments since December 2007. Mr. Gilboa is a Director of Gadot. From 2003 until 2007, Mr. Gilboa served as Chief Financial Officer and Chief Operations Officer at MIRS Communications Ltd. From 1999 through 2002, Mr. Gilboa served as Controller and Financial Manager of Telephone Communications Ltd.

GIORA BAR-NIR, 51, has been Vice-President – Accounting and Controller since October 2004. From March 2002 until October 2004 Mr. Bar-Nir was the Controller. From 1999 until 2004, Mr. Bar-Nir was the Controller of the Israeli subsidiaries of Ampal.

AUDIT COMMITTEE

The Company has an Audit Committee of the Board consisting of Messrs. Karni, Haber and Morag, 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. The Board has determined that Mr. Morag is 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 March 5, 2008.

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

Prior to September 19, 2006, the Stock Option and Compensation Committee of the Board (the "Compensation Committee") was responsible for determining all facets of executive compensation including annual base salary and bonuses for executive officers, administration of the Company's 1998 Long Term Incentive Plan and the Company's 2000 Incentive Plan (collectively, the "Option Plans"), and director compensation. 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.

On September 19, 2006, the members of the Board engaged in discussions regarding the appropriate scope of the responsibilities of the Compensation Committee in light of the Company's "controlled company" status under the rules of NASDAQ and the fact that Mr. Yosef A. Maiman was appointed as the Chief Executive Officer of Ampal. During these discussions, the Board decided to re-allocate certain of the responsibilities with regard to executive compensation to Yosef A. Maiman, the Chairman, President and Chief Executive Officer.

Effective as of September 19, 2006, the Board determined that the Compensation Committee will 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.

Effective as of September 19, 2006, the Board also determined that Mr. Maiman will 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. 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, 2007, were made by the Compensation Committee in consultation with Mr. Maiman and 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 the past, bonuses were based on a multiple of the Named Executive Officer's base salary, but in the interest of flexibility, we no longer exclusively utilize this approach. In 2007, 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, 2007 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.

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.

Perquisites

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.

Summary Compensation Table For Fiscal Year Ended December 31, 2007

The following table sets forth all of the compensation awards to our Named Executive Officers for the year ended December 31, 2007.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards (9)	All Other Compensation (6)	Total (8)
		\$	\$	\$	\$	\$	\$
Yosef A. Maiman (1) (7) Chairman of the Board, President and CEO	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) (7)
CFO - SVP

Finance & Treasurer	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) (7) Secretary, Vice President Investments	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	2007	155,486	62,402	-	35,396	55,236	308,521
	2006	141,538	49,704	-	37,969	50,902	280,114
Giora Bar Nir (5) Vice President Accounting & Controller	2007	167,574	31,201	-	14,198	64,444	277,416
	2006	152,196	29,822	-	30,501	57,362	269,882
Jack Bigio (7)(10) Former President & CEO	2006	388,346	206,580	-	148,935	662,570 ⁽¹²⁾	1,406,431

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(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. Bar-Nir has been employed by Ampal since June 17, 1990.

(6) Comprised of Ampal (Israel's) contribution pursuant to: (i) Ampal (Israel's) pension plan and (ii) Ampal (Israel's) 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.

(7) 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.

(8) 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 4.0355, which represents the exchange rate as of December 31, 2007.

(9) Represents the compensation cost in 2007 in accordance with SFAS No. 123R for stock options, which includes amounts from awards granted in and prior to 2007.

(10) Mr. Bigio served as President and CEO from April 25, 2002 until September 30, 2006. The amounts include final account settlement. Mr. Bigio exercised 150,000 options on October 4, 2006.

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

(12) Of such amount, for services as director, \$4,500 was paid in cash.

Outstanding Equity Awards For Fiscal Year Ended December 31, 2007

Option Awards

**Number of
Securities**

**Number of
Securities**

Name	Underlying Unexercised Options (Exercisable) (1)	Underlying Unexercised Options (Unexercisable) (1)	Option Exercise Price (\$)	Option Expiration Date
Yosef A. Maiman	250,000		3.12	August 15, 2012
	62,500	187,500	5.06	December 11, 2016
Irit Eluz	78,500		3.12	August 15, 2012
	210,000	70,000	3.5	October 27, 2014
Yoram Firon	68,500		3.12	August 15, 2012
	142,500	47,500	3.5	October 27, 2014
Amit Mantsur	58,000		3.69	February 12, 2013
	11,250	3,750	3.5	October 27, 2014
Giora Bar Nir	63,500		3.12	August 15, 2012
	22,500	7,500	3.5	October 27, 2014

(1) Options expire 10 years from the grant date and vest in sixteen equal installments on the three month anniversary of the date of grant and each three month period thereafter.

Compensation of Directors

Directors of Ampal (other than Mr. Maiman) receive \$1,500 per Board meeting attended. The Chairman of the Board receives \$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 \$30,000 per year. Each of Mr. Haber and Mr. Morag are entitled to \$20,000 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, Haber 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 this Report.

On September 3, 2007, the Stock Option and Compensation Committee of the Board approved the grant, pursuant to the Company's 2000 Incentive Plan to each of Eitan Haber, Yehuda Karni and Menahem Morag, the Company's non-employee directors, an option to purchase 90,000 shares of the Company's Class A Stock. All of the foregoing options have an exercise price of \$5.35 per share and will vest in equal installments beginning on December 12, 2007 and each three month anniversary thereafter. Additionally, the exercise price of these options may only be paid by the holders by having the Company withhold from the underlying option stock the number of shares having a fair market value equal to the exercise price.

Director Compensation For Fiscal Year Ended December 31, 2007

Name	Fees Paid in Cash (\$)	Option ⁽¹⁾ Award (\$)	Total (\$)
Yehuda Karni ⁽²⁾⁽³⁾⁽⁸⁾	46,500	53,720	100,220
Menahem Morag ⁽²⁾⁽⁴⁾⁽⁸⁾	25,500	53,720	79,220
Eitan Haber ⁽²⁾⁽³⁾⁽⁸⁾	27,000	53,720	80,720
Leo Malamud ⁽⁵⁾⁽⁸⁾	7,500	17,748	25,248
Dr. Yossi Yerushalmi ⁽⁶⁾⁽⁸⁾	12,000	47,329	59,329
Dr. Nimrod Novik ⁽⁷⁾⁽⁸⁾	12,000	106,490	118,490
Jack Bigio	6,000	-	6,000

- (1) Represents the compensation cost in 2007 in accordance with SFAS 123(R) for stock options.
- (2) In fiscal year 2007, Messrs. Karni, Morag and Haber were each granted an option to purchase 90,000 shares of our Class A Stock, each with a grant date fair value of \$204,598. In fiscal 2006, Messrs. Karni, Morag and Haber were each granted an option to purchase 30,000 shares of our Class A Stock, each with a grant date fair value of \$70.993.
- (3) In fiscal 2002, Messrs. Karni and Haber were each granted an option to purchase 15,000 shares of our Class A Stock, each with a grant date fair value of \$24,299.
- (4) In fiscal 2004, Mr. Morag was granted an option to purchase 15,000 shares of our Class A Stock, with a grant date fair value of \$31,935.
- (5) In fiscal 2006, Mr. Malamud was granted an option to purchase 30,000 shares of our Class A Stock, with a grant date fair value of \$70,993. In fiscal 2002, Mr. Malamud was granted an option to purchase 150,000 shares of our Class A Stock, with a grant date fair value of \$242,994.
- (6) In fiscal 2006, Mr. Yerushalmi was granted an option to purchase 80,000 shares of our Class A Stock, with a grant date fair value of \$189,315. In fiscal 2002, Mr. Yerushalmi was granted an option to purchase 100,000 shares of our Class A Stock, with a grant date fair value of \$161,996.
- (7) In fiscal 2006, Mr. Novik was granted an option to purchase 180,000 shares of our Class A Stock, with a grant date fair value of \$425,960.
- (8) On December 12, 2006, the Stock Option and Compensation Committee of the Board approved the grant, pursuant to the Company's 2000 Incentive Plan to (i) Yosef A. Maiman an option to purchase 250,000 shares of the Company's Class A Stock (ii) Nimrod Novik an option to purchase 180,000 shares of the Company's Class A Stock, (iii) Joseph Yerushalmi an option to purchase 80,000 options, (iv) Leo Malamud an option to purchase 30,000 shares of the Company's Class A Stock and (v) each of Eitan Haber, Yehuda Karni and Menahem Morag, the Company's non-employee directors, an option to purchase 30,000 shares of the Company's Class A Stock. All of the foregoing options have an exercise price of \$5.06 per share and will vest in equal installments beginning on March 12, 2007 and each three month anniversary thereafter. Additionally, the exercise price of these options may only be paid by the holders by having the Company withhold from the underlying option stock the number of shares having a fair market value equal to the exercise price.

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, 2007.

	2007
Eitan Haber (1)	90,000
Yehuda Karni (1)	90,000
Menahem Morag (2)	90,000

(1) Director since August 16, 2002.

(2) Director since January 27, 2004.

Stock Option Plan

In March 1998, the Board approved a Long-Term Incentive Plan ("1998 Plan") permitting the granting of options to all employees, officers, directors and consultants of the Company and its subsidiaries to purchase up to an aggregate of 400,000 shares of Class A Stock. The 1998 Plan was approved by a majority of the Company's shareholders at the June 19, 1998 annual meeting of shareholders. The 1998 Plan remains in effect for a period of ten years. As of December 31, 2006, no options of the 1998 Plan are outstanding.

On February 15, 2000, the Compensation 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 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. The 2000 Plan remains in effect for a period of ten years. As of December 31, 2007, 2,434,500 options of the 2000 Plan are outstanding.

The options granted under the 1998 Plan and the 2000 Plan (collectively, the "Plans") 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 Plans were granted either at market value or above.

Under each of the Plans, all granted but unvested options become immediately exercisable upon the occurrence of a change in control of the Company. Prior to January 1, 2006, the Company accounted for all plans under APB Opinion No. 25, under which no compensation costs were incurred in the years ended December 31, 2004 and 2005. If compensation cost for the options under the above Plans had been determined in accordance with SFAS No. 123, the Company's net income (loss) would have been (\$6.8 million) and (\$19.0 million) for the years 2005 and 2004, respectively.

Effective January 1, 2006, the Company adopted SFAS No. 123R SFAS No. 123R, which revises SFAS No. 123, and supersedes Accounting Principles Board ("APB") Opinion 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, over the requisite service period. For the year ended December 31, 2007 the Company recorded \$782,000 as compensation expenses.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of Compensation Committee are Mr. Yehuda Karni, Mr. Eitan Haber and Mr. Menahem Morag, none of whom is an officer or employee or former officer or employee of the Company. During 2007, 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.

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
Eitan Harber
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	Equity Compensation Plan Information ⁽¹⁾		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)

Equity compensation plans approved by security holders	2,434,500	4.0	2,434,500 ⁽²⁾
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	2,434,500	4.0	2,434,500

(1) All information provided as of December 31, 2007.

(2) The number of securities remaining available for future issuance under 1998 Plan is 388,000. The number of securities remaining available for future issuance under 2000 Plan is 1,138,625.

PRINCIPAL SHAREHOLDERS OF AMPAL

The following table sets forth information as of March 5, 2008, 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 March 5, 2008, there were 57,702,532 (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⁾	16.72%
De-Majorca Holdings Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	18,850,153 ⁽²⁾	32.67%
Yosef A. Maiman Y.M. Noy Investments Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	33,304,799 ⁽¹⁾⁽²⁾⁽³⁾	57.39%
Ohad Maiman Y.M. Noy Investments Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	28,500,285 ⁽¹⁾⁽²⁾	49.39%
Noa Maiman Y.M. Noy Investments Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	28,500,285 ⁽¹⁾⁽²⁾	49.39%
Yoav Maiman Y.M. Noy Investments Ltd., of 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	28,500,285 ⁽¹⁾⁽²⁾	49.39%
Merhav M.N.F. Ltd. 33 Havazelet Hasharon St., Herzliya, Israel	Class A Stock	4,476,389 ⁽⁴⁾	7.76%
Clal Finance Ltd.			

and
Clal Insurance Enterprises Holdings Ltd.
37 Menachem Begin St.,
Tel-Aviv 65220, Israel

Class A Stock 3,326,905⁽⁵⁾ 5.78%

- (1) Consists of 9,650,132 shares of Class A Stock held directly by Di-Rapallo Holdings Ltd. Yosef A. Maiman owns 100% of the economic shares and one-fourth of the voting shares of Di-Rapallo Holdings Ltd. In addition, Mr. Maiman holds an option to acquire the remaining three quarters of the voting shares of Di-Rapallo Holdings Ltd. (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 Holdings Ltd. Yosef A. Maiman owns 100% of the economic shares and one-fourth of the voting shares of De-Majorca Holdings Ltd. In addition, Mr. Maiman holds an option to acquire the remaining three quarters of the voting shares of De-Majorca Holdings Ltd. (which are currently owned by Ohad Maiman, Noa Maiman and Yoav Maiman, the son, daughter and son, respectively, of Mr. Maiman).

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- (3) Includes 328,125 shares of Class A Stock underlying options which are currently exercisable or exercisable within 60 days of March 5, 2008, by Mr. Maiman and 4,476,389 shares of Class A Stock held directly by Merhav M.N.F Ltd. Yosef A. Maiman owns 100% of Merhav M.N.F Ltd.
- (4) Yosef A. Maiman owns 100% of Merhav M.N.F Ltd.
- (5) Consists of 276,092 shares of Class A Stock beneficially owned by Clal Finance Ltd. ("Clal Finance"), of which 145,515 shares of Class A Stock are held for its own account; and 3,050,813 shares of Class A Stock beneficially owned by Clal Insurance Enterprises Holdings Ltd. ("Clal"), of which (i) 2,490,895 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) 182 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) 559,736 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 182 Common Stock (the "CFB Shares"). Clal may be deemed to beneficially own an aggregate of 3,050,813 Common 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 beneficially by Clal.

The information regarding the holdings of Clal Finance and Clal, and the beneficial ownership thereof, is based upon a Schedule 13G filed by Clal with the SEC on February 14, 2008.

Security Ownership of Management

The following table sets forth information as of March 5, 2008 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	33,304,799 ⁽¹⁾⁽²⁾	56.18%

Irit Eluz	323,500 ⁽²⁾	*
Yoram Firon	234,750 ⁽²⁾	*
Amit Mantsur	71,125 ⁽²⁾	*
Leo Malamud	159,375 ⁽²⁾	*
Dr. Joseph Yerushalmi	125,000 ⁽²⁾	*
Dr. Nimrod Novik	56,250 ⁽²⁾	*
Eitan Haber	63,750 ⁽²⁾	*
Yehuda Karni	63,750 ⁽²⁾	*
Menahem Morag	63,750 ⁽²⁾	*
Giora Bar-Nir	89,750 ⁽²⁾	*
Jack Bigio	150,000 ⁽²⁾	*
All Directors and Executive Officers as a Group	34,705,799 ⁽²⁾	58.54%

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

(1) Attributable to 9,650,132, 18,850,153 and 4,476,389 shares of Class A Stock held directly by Di-Rapallo Holdings Ltd., De-Majorca Holdings Ltd. and Merhav M.N.F Ltd., respectively. See “Security Ownership of Certain Beneficial Owners.” In addition, this represents 328,125 shares underlying options for Yosef Maiman which are presently exercisable or exercisable within 60 days of March 5 2008.

(2) Represents shares underlying options which are presently exercisable or exercisable within 60 days of March 5, 2008.

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

On December 25, 2007, Ampal entered into an Option Agreement (the “Option Agreement”) with Merhav M.N.F. Ltd. providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project (the “Project”) in Colombia being developed by Merhav M.N.F. Ltd. The option expires on the earlier of December 25, 2008 or the date on which both (i) Merhav M.N.F. Ltd. 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 Option Agreement provides that the purchase price for any interest in the Project purchased by Ampal pursuant to the Option Agreement will be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the 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 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.

Ampal has 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 a Promissory Note, dated as of December 25, 2007, by Merhav M.N.F. Ltd. in favor of Ampal (the “Promissory Note”). Ampal has agreed to advance up to an additional \$10 million to fund the Project pursuant to the Promissory Note. The loan bears interest at an annual rate equal to LIBOR plus 2.25%, and will be convertible into all or a portion of the equity interest purchased pursuant to the option.

As security for the loan, Merhav M.N.F. Ltd. has pledged to Ampal, pursuant to a pledge agreement, dated December 25, 2007, between Merhav M.N.F. Ltd. and Ampal, all of the shares of Ampal’s Class A 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 M.N.F. Ltd. 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.

On November 29, 2007, Ampal and 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 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 M.N.F. Ltd., 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 M.N.F. Ltd., which was accounted for as a transfer of assets between entities under common control, which resulted in Merhav M.N.F. Ltd. transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav M.N.F. Ltd.’s operations, Merhav M.N.F.

Ltd. 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.

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%).

On September 20, 2007, Merhav M.N.F. Ltd. 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 issued to it as partial consideration for the purchase of a 5.9% interest in EMG by Ampal in December 2006, into 4,476,389 shares of Class A Stock of Ampal. The issuance of the 4,476,389 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.

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 M.N.F. Ltd.

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 M.N.F. Ltd., De Majorca Holdings Ltd. and Di-Rapallo Holdings Ltd. 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 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, Haber and Morag, 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 ACCOUNTING 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, 2007 and December 31, 2006 and reviewing the financial statements included in the Company's quarterly reports on Form 10-Q were \$ 477,000 and \$276,000, respectively.

AUDIT – RELATED FEES . Kesselman's fees for audit related services for the fiscal year ended December 31, 2007 was \$44,000. There was no audit-related fees for the fiscal year ended December 31, 2006.

TAX FEES. Kesselman's tax fees for the fiscal years ended December 31, 2007 and December 31, 2006, were \$ 53,665 and \$205,000, respectively.

ALL OTHER FEES – Kesselman's fees for other services for the fiscal years ended December 31, 2007 and December 31, 2006, were \$309,142 and \$316,500, 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.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

	<u>Page Reference</u>
(1) Financial Statements and Supplementary Data	
Ampal-American Israel Corporation and Subsidiaries	
Report of Independent Registered Public Accounting Firm	1
Consolidated Balance Sheets as of December 31, 2007 and 2006	3
Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005	5
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005	6
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005	9
Consolidated Statements of Comprehensive Income for the years ended December 31, 2007, 2006 and 2005 (included as part of the Statements of Changes in Shareholders' Equity for the respective years)	9
Notes to Consolidated Financial Statements	12
Supplementary Data:	
Selected quarterly financial data for the years ended December 31, 2007 and 2006	28 of annual report

(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, 2007:

**Representative Rates of Exchange
Between the U.S. dollar and the New Israeli Shekel
For the Three Years Ended December 31, 2007**

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):

2007	2006	2005
------	------	------

March 31	4.155	4.665	4.361
June 30	4.249	4.440	4.574
September 30	4.013	4.302	4.598
December 31	3.846	4.225	4.603

(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

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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

Ophir Holdings 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

Ophirtech Ltd.

Report of Certified Public Accountants
Consolidated Balance Sheets as at December 31, 2005 and 2004
Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003
Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003
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 Container Systems Ltd.
C.D Packaging System Ltd.
Eurochem Maritime B.V.
Chem Tankers Management B.V.
Hod Hasharon Sport Center Ltd.
Hod Hasharon Sport Center (1992) Limited Partnership

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

- 2a. Purchase and Sale Agreement, dated January 5, 1998, between Ampal Communications, Inc. and Motorola Communications Israel Ltd. (Includes as Exhibit A the form of Partnership Agreement between Ampal Communications, Inc. and Motorola Communications Israel Ltd. and as Exhibit B the form of Shareholders' Agreement between Ampal Communications, Inc. and Motorola Communications Israel Ltd.) (Filed as Exhibit 2 to a Current Report on Form 8-K, dated February 5, 1998, and incorporated herein by reference, File No. 0-538.)
- 2b. Amendment, dated January 22, 1998, to (i) Purchase and Sale Agreement, dated January 5, 1998, between Ampal Communications, Inc. and Motorola Communications Israel Ltd., (ii) Partnership Agreement between Ampal Communications, Inc. and Motorola Communications Israel Ltd. and (iii) form of Shareholders' Agreement between Ampal Communications, Inc. and Motorola

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).

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- 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)

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 10I, 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 1998 Long-Term Incentive Plan (Filed as Exhibit A to the Company's Proxy Statement for the 1998 Annual Meeting of Shareholders).*
- 10g. The Company's 2000 Incentive Plan (Filed as an exhibit to the Company's Proxy Statement for the 2000 Annual Meeting of Shareholders).*
- 10h. Amendment to the Company's 1998 Long Term Incentive Plan adopted by the Board of Directors on February 14, 2002.* (Filed as Exhibit 10h to the report on Form 10K. Filed on March 27, 2003).
- 10i. 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 10K. Filed on March 27, 2003).

- 10j. 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 10K. Filed on March 15, 2005).
- 10k. 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 10K. Filed on March 15, 2005).
- 10l. 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 10K filed on March 29, 2006).
- 10m. 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).
- 10n. 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).
- 10o. 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)

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- 10p. 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).
- 10q. 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).
- 10r. 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)
- 10s. 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).
- 10t. 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).
- 10u. 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).
- 10v. 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).
- 10w. 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)
- 10x. English translation of the original Hebrew language Form of Employment Agreement for each of Yosef A. Maiman, Jack Bigio, Irit Eluz, Yoram Firon and Amit Mantsur.* (Filed as Exhibit 10x to Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 000-00538)
- 10y. English translation of the original Hebrew language Employment Agreement for Giora Bar-Nir.* (Filed as Exhibit 10y to Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 000-00538)
- 10z. 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).*
- 10aa. 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).
- 10bb. 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).
- 10cc. 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).

- 10dd. 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).
- 10ee. 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.
- 10ff. Credit Facility between Merhav Ampal Energy Ltd. and Israel Discount Bank Ltd., dated November 29, 2007, for the funding of the Gadot transaction.
- 10gg. 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.
- 10hh. Promissory Note, dated as of December 25, 2007, by Merhav M.N.F. Ltd. in favor of Ampal.
- 10ii. Pledge Agreement, dated December 25, 2007, between Merhav M.N.F. Ltd. and Ampal.

* 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

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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	Kesselman & Kesselman CPAs (Isr) A member of PricewaterhouseCoopers International Limited	E-23.4
23.5	Mazars Paardekooper Hoffman Accountants N.V	E-23.5
23.6	Fahn, Kanne & Co. Certified Public Accountants (Isr.)	E-23.6
23.7	Mazars Paardekooper Hoffman Accountants N.V	E-23.7
23.8	KPMG Somekh Chaikin, Certified Public Accountants	E-23.8
23.9	KPMG Somekh Chaikin, Certified Public Accountants	E-23.9
23.10	Kesselman & Kesselman CPAs (Isr) A member of PricewaterhouseCoopers International Limited	E-23.10
23.11	Kesselman & Kesselman CPAs (Isr) A member of PricewaterhouseCoopers International Limited	E-23.11

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.

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 17th day of March, 2008.

AMPAL-AMERICAN ISRAEL CORPORATION

By: /s/ YOSEF A. MAIMAN

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 17, 2008.

<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 17, 2008
/s/ LEO MALAMUD _____ Leo Malamud	Director	March 17, 2008
/s/ DR. JOSEPH YERUSHALMI _____ Dr. Joseph Yerushalmi	Director	March 17, 2008
/s/ DR. NIMROD NOVIK _____ Dr. Nimrod Novik	Director	March 17, 2008
/s/ JACK BIGIO _____ Jack Bigio	Director	March 17, 2008
/s/ YEHUDA KARNI _____ Yehuda Karni	Director	March 17, 2008
/s/ EITAN HABER _____ Eitan Haber	Director	March 17, 2008
/s/ MENAHEM MORAG _____ Menahem Morag	Director	March 17, 2008
/s/ IRIT ELUZ _____ Irit Eluz	CFO, Senior Vice President - Finance and Treasurer (Principal Financial Officer)	March 17, 2008
/s/ GIORA BAR - NIR _____ Giora Bar-Nir	VP Accounting & Controller (Principal Accounting Officer)	March 17, 2008

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, 2007 and 2006, and the results of their operations and their 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. Also in our opinion the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 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 2007 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 audit which was an integrated audit in 2007. We did not audit the financial statements of certain affiliated companies, the which statements reflect total assets of \$7,417 thousands and \$1,262 thousands as of December 31, 2007 and 2006, respectively, and total share in equity income (loss) of (\$1,581), \$1,620 and \$88 for each of the three years in the period ended December 31, 2007. The financial statements of those 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 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 17, 2008

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	Assets As At	
	December 31, 2007	December 31, 2006
	(U.S. Dollars in thousands)	
Current assets:		
Cash and cash equivalents	\$ 44,267	\$ 36,733
Marketable securities (Note 2)	22,459	380
Account receivable	106,665	-
Deposits, notes and loans receivable	13,737	3,402
Inventories	28,928	-
Other assets	23,164	4,047
	239,220	44,562
Non-current assets:		
Investments (Notes 2, 3 and 16):	371,791	265,236
Fixed assets, less accumulated depreciation of \$3,697 and \$17,055 (Note 6)	73,007	71,881
Deposits, notes and loans receivable	3,738	6,805
Deferred tax	11,637	10,398
Other assets	15,557	2,801
	50,406	-
Goodwill (Note 5)	9,433	-
Intangible assets (Note 4)	535,569	357,121
	535,569	357,121
TOTAL ASSETS	\$ 774,789	\$ 401,683

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

**Liabilities and Shareholders'
Equity As At**

	December 31, 2007	December 31, 2006
(U.S. Dollars in thousands except amounts per share data)		
LIABILITIES		
Current liabilities:		
Notes and loans payable and current maturities (Note 7)	\$ 136,612	\$ 26,373
Convertible note to related party (Note 11)	--	20,000
Accounts payable, accrued expenses and others (Note 9)	73,769	6,850
Deposits from tenants	-	1,166
Total current liabilities	210,381	54,389
Long term liabilities:		
Notes and loans payable (Note 7)	187,405	18,618
Debentures (Note 8)	79,350	59,172
Deposits from tenants	--	53,813
Deferred tax	3,275	974
Other long term liabilities (Note 9)	12,760	3,140
Total long term liabilities	282,790	135,717
Commitments and Contingencies (note 19)		
Total liabilities	493,171	190,106
Minority interests, net (Note 10)	23,206	2,764
SHAREHOLDERS' EQUITY (Note 11)		
Class A Stock \$1 par value; authorized 100,000,000 and 60,000,000 shares; issued 63,277,321 and 46,328,429 shares; outstanding 57,702,532 and 40,753,640 shares	63,277	46,328
Receipt on account of unallocated shares	-	40,000
Additional paid-in capital	189,899	126,945
Warrants		308
Retained earnings	47,931	40,165
Accumulated other comprehensive loss	(14,821)	(17,059)
Treasury stock, at cost	(27,874)	(27,874)
Total shareholders' equity	258,412	208,813
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 774,789	\$ 401,683

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

	2007	2006	2005
(U.S. Dollars in thousands, except per share data)			
REVENUES:			
Chemical income	\$ 28,546	\$ -	\$ -
Real estate income	-	237	233
Equity in earnings (losses) of affiliates (Note 16)	(1,523)	1,610	6,666
Realized gains on investments (Note 3)	552	5,386	-
Realized and unrealized gains on marketable securities	173	1,126	3,203
Gain on sale of fixed assets (Note 3)	3,376	2,186	-
Interest income	3,954	1,479	1,567
Leisure-time income	2,530	2,167	2,208
Other income	189	353	7,642
Total revenues	37,797	14,544	21,519
EXPENSES:			
Chemical expense	26,220	-	-
Real estate expenses	-	272	311
Realized losses on investments (Note 3)	-	1,016	2,735
Loss from impairment of investments & real estate (Note 3)	575	-	13,984
Interest expense	10,122	4,328	4,421
Translation (gain) loss	3,086	(1,256)	2,603
Marketing expense	719	--	--
Other (mainly general and administrative)	14,697	13,548	10,957
Total expenses	55,424	17,908	35,011
Loss before income taxes	(17,627)	(3,364)	(13,492)
Provision for income taxes (tax benefits) (Note 14)	(5,625)	2,585	(2,909)
Loss after income taxes (tax benefits)	(12,002)	(5,949)	(10,583)
Minority interests in profits of subsidiaries, net	(1,576)	(78)	4,667
Loss from continuing operations	(13,578)	(6,027)	(5,916)
Discontinued operation:			
Gain disposal, net of tax	21,761	-	-
Loss from operation of discontinued, net of tax	(417)	(1,060)	(42)
	21,344	(1,060)	(42)
Net income (loss) for the year	\$ 7,766	\$ (7,087)	\$ (5,958)
Basic and diluted EPS (Note 13):			
Loss from continuing operations	(0.26)	(0.35)	(0.31)
Discontinued operations	0.42	(0.05)	-
	\$ 0.16	\$ (0.40)	\$ (0.31)
Shares used in calculation (in thousands)	51,362	24,109	19,967

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(U.S. Dollars in thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ 7,766	\$ (7,087)	\$ (5,958)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in losses (earnings) of affiliates	1,523	(1,610)	(6,666)
Realized and unrealized gains on investments, net	(725)	(5,496)	(468)
Gain on disposal of discontinued operations, net of tax	(21,761)		
Gain on sale of fixed assets	(3,376)	(2,186)	--
Depreciation expense	1,367	1,967	1,978
Income from amortization of tenants deposits	(677)	(1,747)	(1,876)
Impairment of investments	575	--	13,984
Non cash stock based compensation	782	720	--
Interest on convertible note to related party	815	--	--
Minority interests in profits of subsidiaries, net	1,427	(339)	(4,467)
Translation (gain) loss	2,967	(303)	2,220
Decrease (increase) in other assets	(17,387)	4,196	13,425
Increase (decrease) in accounts payable, accrued expenses and other	8,535	1,817	6,968
Investments made in trading securities	(23,803)	(49,994)	(12,868)
Proceeds from sale of trading securities	18,021	89,622	32,595
Dividends received from affiliates	185	217	4,335
	<u>(23,766)</u>	<u>29,777</u>	<u>43,202</u>
Net cash (used in) provided by operating activities			
Cash flows from investing activities:			
Deposits, notes and loans receivable collected	3,643	--	2,872
Deposits, notes and loans receivable granted	(10,000)	(10,001)	(1,024)
Capital improvements	(1,178)	(1,430)	(9,884)
Investments made in Gadot, net of cash ⁽¹⁾	(78,153)		
Investments made in EMG, affiliates and others	(105,099)	(123,031)	(30,621)
Proceeds from disposal of investments:			
Affiliate and others	5,643	23,377	75,356
Proceeds from sale of Am-Hal ⁽²⁾ , net	27,715	--	--
Proceeds from sale of fixed assets	7,694	3,800	--
	<u>(149,735)</u>	<u>(107,285)</u>	<u>36,699</u>
Net cash (used in) provided by investing activities			

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

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

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(U.S. Dollars in thousands)		
Cash flows from financing activities:			

Proceeds from notes and loans payable issued	\$ 103,131	\$ 6,015	\$ 8,869
Proceeds from long term loan from partnership minority	95,429	166	2,050
Notes and loans payable repaid	(37,000)	(11,210)	(78,875)
Proceeds from exercise of stock options and warrants	17,997	550	251
Debentures repaid	--	--	(2,023)
Proceeds from issuance of shares, net	--	36,668	--
Proceeds from issuance of debentures	--	57,978	--
Deferred expense relating to issuance of debentures	--	(1,607)	--
Contribution (distribution) to partnership by minority interests	130	--	(3,567)
Dividends paid on preferred stock	--	(2,332)	(191)
	<u>179,687</u>	<u>86,228</u>	<u>(73,486)</u>
Net cash provided by (used) in financing activities	179,687	86,228	(73,486)
Effect of exchange rate changes on cash and cash equivalents	1,348	3,699	281
	<u>7,534</u>	<u>12,419</u>	<u>6,696</u>
Net increase in cash and cash equivalents	7,534	12,419	6,696
Cash and cash equivalents at beginning of year	36,733	24,314	17,618
	<u>44,267</u>	<u>36,733</u>	<u>24,314</u>
Cash and cash equivalents at end of year	\$ 44,267	\$ 36,733	\$ 24,314
Supplemental Disclosure of Cash Flow Information Cash paid during the year:			
Interest	9,468	2,969	2,535
	<u>68</u>	<u>66</u>	<u>68</u>
Income taxes paid	\$ 68	\$ 66	\$ 68
Supplemental Disclosure of Non-Cash investing and financing activity:			
Consideration for sale of an investment recorded as other assets	300	418	--
	<u>800</u>	<u>800</u>	<u>--</u>
Consideration for sale of fixed assets recorded as other assets		800	--
	<u>868</u>	<u>868</u>	<u>--</u>
Capital improvement recorded as account payable		868	--
	<u>88,965</u>	<u>88,965</u>	<u>--</u>
Investment made in consideration for sale of shares capital		88,965	--
	<u>20,000</u>	<u>20,000</u>	<u>--</u>
Investment made in investee by issuance of promissory note payable		20,000	--
	<u>--</u>	<u>--</u>	<u>3,316</u>
Marketable securities received as consideration for sale of an investment	--	--	3,316
	<u>--</u>	<u>--</u>	<u>7,088</u>
Dividend in kind from an affiliate	--	--	7,088
	<u>5,060</u>	<u>5,060</u>	<u>--</u>
Dividend from an equity investment recorded as payable accounts in previous period		5,060	--
	<u>20,815</u>	<u>20,815</u>	<u>--</u>
Conversion of promissory note to class A stock	20,815		
	<u>40,000</u>	<u>40,000</u>	<u>--</u>
Issuance of shares for cash receipt on previous year	40,000		
	<u>2,111</u>	<u>2,111</u>	<u>--</u>
Conversion of preferred stock to class A stock		2,111	--

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

recognized under SFAS 123R					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
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(U.S. Dollars in thousands)

	Class A stock		4 % Preferred stock		6.5% Preferred stock		Receipt on account of unallocated shares	Additional paid in capital	Warrants	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholder equity
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount							
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
Compensation expense recognized under SFAS 123R								720					720
Reissuance of 176,250 treasury stock for exercise of stock options										(332)		882	550
Dividend													
- 4% Preferred stock										(285)			(285)
- 6.5 Preferred stock										(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
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(U.S. Dollars in thousands)

	Class A stock		4 % preferred stock		6.5 % preferred stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders equity
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount					
BALANCE AT JANUARY 1, 2005	25,715	25,715	124	620	662	3,311	58,211	57,524	(14,272)	(31,096)	100,013
CHANGES DURING 2005:											
Net loss								(5,958)			(5,958)
Other comprehensive income (loss):											
Foreign currency translation adjustments									348		348
Unrealized loss on marketable securities									(1,472)		(1,472)
Sale of available for sale securities									(4,122)		(4,122)
Total comprehensive loss											(11,204)
Conversion of 9,826 4% preferred stock and 20,796 6.5% preferred stock into Class A stock	112	112	(10)	(49)	(21)	(104)	41				-
Reissuance of 80,625 treasury stock for exercise of stock options								(152)		403	251
Dividends :											
4% preferred stock, \$0.2 per share								(22)			(22)
6.5% preferred stock, \$0.325 per share								(169)			(169)
BALANCE AT DECEMBER 31, 2005	25,827	25,827	114	571	641	3,207	58,252	51,223	(19,518)	(30,693)	88,869

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.
- (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.
- (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 Forward Contracts

The Company’s derivative financial instruments consist of foreign currency forward exchange 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.

At December 31, 2007, the Company had open foreign exchange forward contracts to purchase U.S. Dollars and sell Euros in the amount of \$9 million.

(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.

(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 performs ongoing credit evaluations of its receivables allowance for doubtful accounts.

(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.

(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.

	%
Ships	7-9
Trailers	33.3
Land	--
Real estate	6 1/2
Storage tankers	3 1/3
Vehicles	33.3
Equipment	6-33
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) Ships 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 value 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. As of December 31, 2007 and 2006 there were no undistributed earnings of foreign subsidiaries.

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.

(n) Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104 – "Revenue Recognition". Revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery has occurred and the Company has

determined that collection of the fee is probable.

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 is calculated at a fixed periodic rate based on the specific terms in the occupancy agreement signed with the tenants.

Chemical income is measured at the fair value of the consideration received or the consideration that the Company is entitled to receive, taking into account trade discounts and/or bulk discounts granted by the Company.

Revenue from sale of goods is recognized when all the following conditions have been satisfied: (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.

The Company recognized 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.

Revenue from the provision of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, and only when the stage of completion of the transaction at the balance sheet date can be measured reliably.

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

(o) Cash and Cash Equivalents

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

Cash equal to \$12.0 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 2007, 2006 and 2005, all outstanding stock options for 2006 and 2005 and also the 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 was not taken into account in the computation of the basic EPS in 2006 and 2005, 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.

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.

Prior to January 1, 2006, the Company accounted for the stock-based compensation plans in accordance with the provisions of APB No. 25, as permitted by SFAS No. 123, and accordingly did not recognize compensation expense for stock options since the exercise price was equal to the market price of the underlying stock at the date of grant. If compensation cost for the options under the plans in effect been determined in accordance with SFAS No. 123, the Company's net income (loss) and EPS for the year 2005 would have been reduced as follows:

	Year ended December 31, 2005 (In thousands, except per share data)
Net loss from continuing operations, as reported	\$ (5,916)
Less - stock based compensation expense determined under fair value method	(874)
Pro forma, net loss from continuing operations	(6,790)
Basic and diluted EPS:	
As reported ⁽¹⁾⁽²⁾	\$ (0.31)
Pro forma ⁽¹⁾⁽²⁾	\$ (0.35)

⁽¹⁾ After deduction of accrued Preferred Stock Dividend of \$191 thousands.

⁽²⁾ The effect of the conversion of the 4% and 6.5% Preferred Stock was excluded from the basic and diluted EPS calculation due to its anti-dilutive effect.

(s) Treasury stock

These shares are presented as a reduction of shareholders' equity at their cost to the Company. The Company does not have a policy to repurchase its shares.

(t) Newly Issued and Recently Adopted 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 Company is currently evaluating the impact, if any, the adoption of SFAS 157 will have on its financial statements.

FAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued FAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FASB 159"). This standard permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As applicable to Ampal, this statement will be effective as of the year beginning January 1, 2008. Ampal is currently evaluating the impact that the adoption of FAS 159 would have on its consolidated 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.

SAB No. 110

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (“SAB 110”), relating to the use of a “simplified” method in developing an estimate of the expected term of “plain vanilla” share options. SAB 107 previously allowed the use of the simplified method until December 31, 2007. SAB 110 allows, under certain circumstances, to continue to accept the use of the simplified method beyond December 31, 2007. The Company believes that the adoption of SAB 110 will not have a material impact on its consolidated financial statements.

(u) Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

Note 2 – Investments

a. Non-current investments

The balance of investments as of December 31, 2007 and 2006, are composed of the following items:

	As of December 31,	
	2007	2006
	(U.S. Dollars in thousands)	
EMG	\$ 361,323	\$ 259,860
Investment in Affiliates	9,339	3,855
Other Investments	1,129	1,521
	<u>\$ 371,791</u>	<u>\$ 265,236</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, 2007 and 2006 are as follows:

		Cost	Unrealized Gains	Unrealized (Loss)	Market Value
(U.S. Dollars in thousands)					
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>
Trading stocks	2006	\$ 245	\$ 135	\$ -	\$ 380
Debentures	2006	\$ -	\$ -	\$ -	\$ -

(b) **Available-For-Sale Securities**

		Cost	Unrealized gains	Unrealized (Loss)	Market Value
(U.S. Dollars in thousands)					
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>

In 2006 there were no available-for-sale securities.

Note 3 – Acquisitions, Dispositions and Impairments

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

- 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 Chemical Tankers and Terminals Ltd. (“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.S. dollars in millions
Current assets	\$ 166,365
Investments and other non-current assets	31,145
Fixed assets	74,430
Identifiable intangible assets	9,503
Goodwill	50,406

Total assets acquired	331,849
Current liabilities	(94,703)
Long-term liabilities, including deferred taxes	(124,523)
Minority interest	(21,422)
Total liabilities assumed	(240,648)
Net assets acquired	\$ 91,201

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.

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 EMG 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.

On November 29, 2007, Ampal and 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 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 M.N.F. Ltd., 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 M.N.F. Ltd., which was accounted for as a transfer of assets between entities under common control, which resulted in Merhav M.N.F. Ltd. transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav M.N.F. Ltd.'s operations, Merhav M.N.F. Ltd. 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 or by IIF. 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 M.N.F. Ltd.

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 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 an Option Agreement (the “Option Agreement”) with Merhav M.N.F. Ltd. providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project (the “Project”) in Colombia being developed by Merhav M.N.F. Ltd. The option expires on the earlier of December 25, 2008 or the date on which both (i) Merhav M.N.F. Ltd. 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 Option Agreement provides that the purchase price for any interest in the Project purchased by Ampal pursuant to the Option Agreement will be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the 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 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.

Ampal has 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 a Promissory Note, dated as of December 25, 2007, by Merhav M.N.F. Ltd. in favor of Ampal (the “Promissory Note”). Ampal has agreed to advance up to an additional \$10 million to fund the Project pursuant to the Promissory Note. The loan bears interest at an annual rate equal to LIBOR plus 2.25%, and will be convertible into all or a portion of the equity interest purchased pursuant to the option.

As security for the loan, Merhav M.N.F. Ltd. has pledged to Ampal, pursuant to a pledge agreement, dated December 25, 2007, between Merhav M.N.F. Ltd. and Ampal, all of the shares of Ampal’s Class A 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 M.N.F. Ltd. 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 Opportunity Fund, L.P. (“FIMI”).

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

b) In 2007, Ampal made the following dispositions:

1. On May 21, 2007, the Company closed the sale of its equity method holdings in Carmel, 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. 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).

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

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

The Company, through Merhav Ampal Energy, Ltd., a wholly-owned subsidiary of the Company, entered into an agreement with Merhav (M.N.F.) Ltd. (“Merhav”) for the purchase from Merhav a portion of its interest in East Mediterranean Gas Co. S.A.E., an Egyptian joint stock company (“EMG”). 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, will be 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 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 M.N.F. Ltd. 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 account of unallocated shares.” The investment in EMG is included in the energy segment.

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
- d) 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 an 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 has 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 is \$162,000. The gain from the sale is included in the real-estate segment.
- e) In 2005, the Company made the following investments:
1. On December 1, 2005, the Company acquired a 2% interest in EMG from Merhav. EMG is an Egyptian joint stock company organized in accordance with the Egyptian Special Free Zones system which has been given the right to export natural gas from Egypt to Israel and other locations in the East Mediterranean basin and other countries. Egyptian natural gas shall reach the Israeli market via an underwater pipeline owned by EMG. Under the terms of the transaction, the Company acquired a 2% beneficial ownership in EMG for a purchase price of \$29,960,000. Additionally, the Company was granted the exclusive right to negotiate to acquire a substantial portion of Merhav's remaining shares of EMG. The Company also has the right for a period of time to require Merhav to repurchase the EMG interest.

Yosef A. Maiman, the chairman of the Company's Board of Directors, is the sole owner of Merhav. The transaction was approved by a special committee of the Board of Directors composed of the Company's independent directors. Houlihan Lokey Howard & Zukin Financial Advisors, Inc. acted as financial advisors to the special committee.
 2. Additional investment of \$0.7 million in FIMI.
 3. A loan to Bay Heart Ltd. of \$0.9 million.
- f) In 2005, the Company made the following dispositions:
1. During the third and fourth quarter of 2005, one of the holdings of Ampal's investee companies, TP, received proceeds at the amount of \$1.1 million from selling all its assets in Grapes Communications N.V./S.A. and its holdings in PSINet Europe B.V.
 2. On October 3, 2005, the Company, through Ampal Communications L.P., completed the sale to Motorola Israel Ltd. of all of its 25% holdings of MIRS pursuant to the Agreement. In connection with the sale of its holdings of MIRS, Ampal Communications L.P. received approximately US \$89 million of total proceeds, composed of US \$67.7 million for the purchase price and an additional US \$21.3 million related to guaranteed dividend payments. During the third quarter of 2005, the Company recorded a \$13.3 million loss from impairment relating to this investment.
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3. On September 7, 2005, a third-party Israeli based venture fund and certain of its affiliated companies invested \$2.65 million in the Company's high-tech and communications portfolio. Ampal received \$2.5 million in connection with this transaction. The Company treated this investment as a disposition for accounting purposes and recorded a loss of \$7.3 million (\$4.6 million after taxes).
 4. On August 15, 2005, the Company sold its holdings in Epsilon Investment House Ltd. and Renaissance Investment Company Ltd. for \$2.0 million and recorded a \$1.4 million gain.

5. On July 11, 2005, the Company sold its holdings in Xpert Ltd. for \$0.8 million and recorded a loss of \$0.2 million.
 6. On March 8, 2005, the Company sold its holdings in Modem Art Ltd. for \$4.4 million and recorded a gain of \$3.3 million.
- g) In 2005, the Company recorded loss from impairment of investments and loans of \$14.0 million as follows:
1. MIRS Communications Ltd. (\$13.3 million)
 2. Shiron Ltd. (\$0.6 million)
 3. Other loans (\$0.1 million)

Note 4 – Intangible assets

The balance of intangible assets as of December 31, 2007, is comprised as follows:

	Period of amortization	U.S. dollars in thousands
Option to purchase ship	At time of exercise	\$ 1,662
Ships leasing	4	3,325
Supplier relation	9	3,405
Customer relation	4-9	1,041
Identifiable intangible assets		9,433

The annual estimated amortization expense relating to Ampal's amortizable intangible assets existing as of December 31, 2007, for each of the five years in the period ending December 31, 2012, is approximately \$1.3 million.

Note 5 – Goodwill

As part of the purchase of Gadot on the December 3, 2007, the Company recorded the goodwill and as such it is part of the chemical segment.

Note 6 – Fixed assets

The balance of fixed assets as of December 31, 2007 and 2006 is comprised as follows:

	As of December 31,	
	2007	2006
	(U.S. Dollars in thousands)	
Cost:		
Ship	\$ 23,821	\$ --
Trailers	7,539	
Land	2,180	17,677
Real estate	21,785	64,268
Tankers	17,054	--
Motor vehicles	1,713	
Equipment	1,693	6,792
Leashold improvement	919	199
	<u>76,704</u>	<u>88,936</u>
Accumulated depreciation	3,697	17,055
Fixed assets, net	\$ 73,007	\$ 71,881

During 2007 the company added \$70,456 thousands of net assets from the purchase of Gadot and disposed of \$69,319 thousands of net assets from the sale of Am-Hal.

Depreciation expenses amounted to approximately \$417, \$208 and \$235 (in thousands) for the years ended December 31, 2007, 2006 and

Note 7 – Notes and Loans Payable

Notes issued to institutional investors in Israel, the convertible note issued to Merhav M.N.F. Ltd. 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 (“UBI”) and Israel Discount Bank Ltd. As of December 31, 2007, the outstanding indebtedness under these bank loans totaled \$101.9 million and the loans mature through 2008-2019.

On February 26, 2007, the Company entered into a bank loan with UBI. Pursuant to the loan agreement, on April 2, 2007, UBI granted the Company a \$10 million loan, which bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008. The loan is secured by a pledge of certain assets. On December 31, 2007, UBI granted the Company two loans of equal amount, for a total amount of NIS 20 million (approximately \$5.2 million). The loans bear interest at the rate of 4.6% and 4.8%, respectively, linked to the Consumer Price Index in Israel. Both loans are for a term of two years and interest will be paid semi-annually.

On April 26, 2007, the Company repaid its existing loans from Bank Hapoalim and signed a new loan agreement. The new agreement provides for a secured \$27 million dollar loan facility to the Company at the value as of March 30, 2007, to be used for general corporate purposes. On March 30, 2007, the Company borrowed the full \$27 million under the 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 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, 2007, the Company is in compliance with its debt covenants.

On November 29, 2007, as part of the agreement between Ampal and IIF, leading a group of institutional Investors, the Company received \$95.4 million to purchase a 4.3% interest in EMG, through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership, from Merhav. The loan is unlinked to the Consumer Price Index in Israel, bears no interest and is repayable upon agreement by both parties, but with a minimum term of one year.

A short term loan from Bank Hapoalim in the amount of \$3.5 million bears interest of 7.1% and is to be repaid by June 28, 2008.

Ampal funded the Gadot transaction with a combination of available cash and the proceeds of a new credit facility, dated November 29, 2007 (the “Credit Facility”), between MAE and Israel Discount Bank Ltd. (the “Lender”), for approximately \$60.7 million. The Credit Facility is divided into two equal loans of approximately \$30.35 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 two 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. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type.

In addition, as part of the EMG transaction in December 2006, the Company issued to Merhav M.N.F. Ltd. the Convertible Promissory Note in the principal amount of \$20 million, which at the option of Merhav M.N.F. Ltd., was payable in cash, additional shares of Ampal Class A Stock (based on a price per share of \$4.65 per share), or a combination thereof. 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 M.N.F. Ltd. On September 20, 2007, Merhav M.N.F. Ltd. 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 of December 31, 2007, Gadot, a 65.5% subsidiary of Ampal, has short term loans payable in the amount of \$96.5 million and long term loans payable in the amount of \$30.1 million. The various short term loans payable are either unlinked or linked to the Euro and bear interest at rates between 5.73% to 6.09%. The various long term loans payable are either unlinked, linked to the Consumer Price Index in Israel or linked to the Euro and bear interest at rates between 4.82% to 6.90%.

Other long term borrowings in the amount of \$0.2 million are linked to the Consumer Price Index in Israel and mature between 2008 and 2010 bears an annual interest of 5.7%.

The weighted average interest rates and the balances of these short-term borrowings at December 31, 2007 and December 31, 2006 were 6.3% on \$136.6 million and 6.3% on \$21.2 million, respectively.

Payments due as of December 31, 2007:

	(U.S. Dollars in thousands)		
	Short-Term Debt	Long-Term Debt	Total
2008	\$ 136,612	\$ --	\$ 136,612
2009		115,369	115,369
2010		15,972	15,972
2011		13,804	13,804
2012		17,977	17,977
After year 2012		24,283	24,283
	\$ 136,612	\$ 187,405	\$ 324,017

Note 8 – Debentures

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 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, 2007, the outstanding debt under the notes amounts to \$66.6 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 thousands with Hermetic Trust (1975) Ltd. to secure the first three years worth of payments of interest on the debentures. As of December 31, 2007, the outstanding amount of the deposit was \$7.5 million. Prior to the issuance of the debentures Midroog Ltd., an affiliate of Moody's Investors Service, rated the Company as A3.

On August 1, 2007, Ampal filed a final prospectus with the Israeli Securities Authority and the TASE for the resale and listing with the TASE of its Series A Notes. According to the prospectus, on August 19, 2007, Ampal paid the Series A Notes holders additional interest of 0.10959% (0.5% annually) for the period commencing May 20, 2006 and ending on August 9, 2007, which is the date the Series A Notes were registered for trade. The additional interest was paid to the Series A Note holders whose names appear in the Series A Note holders register kept by Ampal as of August 7, 2007. 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.

As of December 31, 2007, Gadot had \$0.7 million outstanding under its convertible debentures. Gadot's debentures were listed on the Tel Aviv Stock Exchange ("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 in two equal annual installments on December 5, 2008 and 2009. The debentures are convertible into ordinary shares of Gadot, commencing from the date they were listed on the TASE until December 5, 2009, such that as of December 31, 2007, 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, 2007, Gadot had \$12.0 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.

Note 9 – Accounts payable accrued expenses and others

(a) The balance of accounts payable accrued expenses and others as of December 31, 2007 and 2006 is comprised as follows:

As of December 31,	
2007	2006
(U.S. Dollars in thousands)	

Short term:				
Deferred income	\$	2,827	\$	2,808
Accrued expenses		21,619		--
Trade		45,844		--
Others		3,479		4,042
		<u>73,769</u>		<u>6,850</u>
Long term:				
Others		12,760		3,140
		<u>86,529</u>		<u>9,990</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 \$12.7 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 10 – Minority Interest, net

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

The minority interest as of December 31, 2006, is mostly attributable to the warrants granted by Am-Hal to Phoenix Insurance Company. As part of the loan agreement which was signed on December 1, 2005 between Am-Hal and Phoenix Insurance Company, the lender is granted a warrant to purchase 19.9% (on fully diluted basis) of the issued and paid capital of Am-Hal (the "Warrant"). The value of the Warrant was estimated at approximately \$1.3million and recorded as deferred expenses (Note 4). On August 5, 2007, the company sold all of its interest in Am-Hal (see Note 3).

Note 11 – Shareholders' Equity

During the second, third and fourth quarter of 2007, the shareholders' equity changed as follows:

As of December 31, 2007, the Company issued 3,870,351 Class A Shares to investors that exercised warrants granted to them by the Company on December 28, 2006. The total proceeds from the exercise of warrants were \$18.0 million.

On September 20, 2007, Merhav M.N.F. Ltd. 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 issued to it as partial consideration for the purchase of a 5.9% interest in EMG by Ampal in December 2006, into 4,476,389 shares of Class A Stock of Ampal. The issuance of the 4,476,389 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.

Set forth below is our treasury stock as of December 31, 2007, 2006 and 2005:

Fiscal Year Ended December 31,		
2007	2006	2005

(U.S. Dollars in thousands, except share)

TREASURY STOCK:

4% PREFERRED STOCK

Balance, beginning of year 3,350 shares	\$	--	\$	(84)	\$	(84)
Elimination of treasury stock 3,350 shares		--		84		--
Balance, at the end of year	\$	--	\$	--	\$	(84)

6-1/2% PREFERRED STOCK

Balance, beginning and end of year 122,536 shares	\$	--	\$	(1,853)	\$	(1,853)
Elimination of treasury stock 122,536 shares		--		1,853		--
Balance, at the end of year	\$	--	\$	--	\$	(1,853)

CLASS A STOCK

Balance, beginning of year - 5,574,789, 5,751,039 and 5,831,664 shares, at cost	\$	(27,874)	\$	(28,756)	\$	(29,159)
Issuance of 176,250 and 80,625 shares		--		882		403
Balance, end of year - 5,574,789, 5,574,789 and 5,751,039 shares, at cost	\$	(27,874)	\$	(27,874)	\$	(28,756)
Balance end of year	\$	(27,874)	\$	(27,874)	\$	(30,693)

Note 12 – Stock Options

In March 1998, the Board approved a Long-Term Incentive Plan (“1998 Plan”) permitting the granting of options to all employees, officers, directors and consultants of the Company and its subsidiaries to purchase up to an aggregate of 400,000 shares of Class A Stock. The 1998 plan was approved by the majority of the Company’s shareholders at the June 19, 1998, annual meeting of shareholders. The plan remains in effect for a period of ten years. As of December 31, 2007, no options of the 1998 Plan are fully vested and outstanding.

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, 2007, 2,434,500 options under the 2000 Plan are outstanding.

The option term is for a period of five years from the grant date for the options granted under the 1998 Plan and 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 1998 Plan and 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 2007, no such compensation instruments were granted by the Committee.

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 2007, 2006 and 2005 was 2.273, 2.366 and 1.682, respectively.

The following table summarizes the activity of both Plans for the years 2007, 2006 and 2005 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, 2007	2,164	\$ 3.83		
Granted at fair value	270	\$ 5.35		
Exercised	-	\$ -		
Forfeited	-	\$ -		
Expired	-	\$ -		
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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	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, 2006	2,024	\$ 3.37		
Granted at fair value	630	\$ 5.06		
Exercised	(176)	\$ 3.12		
Forfeited	(284)	\$ 3.50		
Expired	(30)	\$ 5.94		
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
Outstanding at January 1, 2005	2,064	\$ 3.39		
Granted at fair value	135	\$ 3.69		
Exercised	-	\$ -		
Forfeited	(175)	\$ 3.85		
Expired	-	\$ -		
Outstanding at December 31, 2005	2,024	\$ 3.37	7.72	-
Exercisable at December 31, 2005	1,044	\$ 3.29	6.96	-

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. As permitted by SAB 107 the Company used the simplified method to compute the expected option term. 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, 2007, 2006 and 2005 were estimated using the following weighted average assumptions: (1) expected life of options of 6, 6 and 5 years, respectively; (2) dividend yield of 0%; (3) volatility of 35.64%, 41.11% and 46.07%, respectively; and (4) risk free interest of 4.30%, 4.42% and 4.08%, respectively.

Total stock-based compensation expense recognized under SFAS No. 123R, was approximately \$783,000 and \$720,000 for the years 2007 and 2006, respectively. No share-based compensation was capitalized in the consolidated financial statements.

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

At December 31, 2007, there was \$1.99 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 13 – 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 2007, 2006 and 2005, 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 for those years (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):

	Year Ended December 31,		
	2007	2006	2005
Net loss from continuing operations	(13,578)	(6,027)	(5,916)
Less: preferred stock dividend	-	(2,438)	(191)
Net loss from continuing operations	(13,578)	(8,465)	(6,107)
Net income (loss) from discontinued operations	21,344	(1,060)	(42)
	7,766	(9,525)	(6,149)
Weighted average class A shares outstanding	51,362	24,109	19,967
Basic and diluted net income (loss) per share:			
Loss from continuing operations	(0.26)	(0.35)	(0.31)
Discontinued operations	0.42	(0.05)	--
Basic and diluted	\$ 0.16	\$ (0.40)	\$ (0.31)

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, 2007, 2006 and 2005 because such shares are anti-dilutive.

(Shares in thousands)	Year ended December 31,		
	2007	2006	2005
Options and Rights	2,434	2,164	2,024
6-1/2% Preferred Stock	--	--	641
4% Preferred Stock	--	--	114
Warrants	--	4,071	--
Promissory note	--	4,476	--

Note 14 – Income Taxes

	Fiscal Year Ended December 31,		
	2007	2006	2005
(U.S. Dollars in thousands)			
The components of income tax expense (benefit) are:			
Continuing operations	(5,625)	2,585	(2,909)
Discontinued operations	7,651	146	60
	2,026	2,731	(2,849)

The components of current and deferred income tax expense (benefit) are:			
Current:			
Federal	\$ -	\$ -	\$ -
Foreign	269	308	-
Deferred:			
State and local	-	-	3
Federal	(7,757)	2,464	(2,955)
Foreign	1,863	(187)	43
Total	\$ 5,625	\$ 2,585	\$ (2,909)

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

Domestic	\$ 845	\$ (4,855)	\$ (14,046)
Foreign	(18,472)	1,491	554
Total	\$ (17,627)	\$ (3,364)	\$ (13,492)

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

Federal income tax (benefit) at 34%	\$ (5,993)	\$ (1,596)	\$ (4,513)
Taxes on foreign Gain (Loss) below U.S. rate	(130)	5,058	(12,796)
Change in previous years unrecognized tax benefits	2,060	-	-
Changes in valuation allowance	(1,913)	(446)	14,639
Other	351	(285)	(179)
Total effective tax: 31.9%; 81.2% and 21.1%	\$ 5,625	\$ 2,731	\$ (2,849)

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	As of December 31,	
	2007	2006
Deferred tax assets:		
The components of deferred tax assets and liabilities are as follows:		
Net operating loss and capital loss carryforwards	\$ 27,875	\$ 30,629
Unrealized losses on investments	700	700
Foreign tax credits carryforwards	7,536	5,456
Total deferred assets	36,111	36,785
Valuation allowance	(24,474)	(26,387)
Net deferred tax assets	11,637	10,398
Deferred tax liabilities:		
Tax on equity in earnings of affiliates	73	434
Other	-	540

Depreciation and amortization	3,202	-
Total deferred tax liability	3,275	974
Net deferred tax assets	\$ 8,362	\$ 9,424

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. Also, upon adoption of FIN 48 the company recorded during 2007 an additional \$2.8 million tax liability from which \$ 2.1 million were recorded as tax expenses expense.

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

	U.S. dollars in thousands
Balance at January 1, 2007	\$ 2,000
Increases related to previous years tax positions	2,803
Expiration of the statute of limitations for the assessment of taxes	--
	--
Balance at December 31, 2007	\$ 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:
2004-2007	Israel
2004-2007	United States ⁽¹⁾

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

As of December 31, 2007, valuation allowance is provided against tax benefits on foreign net operating loss carryforwards of \$24.5 million.

As of December 31, 2007, the Company has foreign tax credits of \$7.3 million that will expire in the years 2009 through 2014.

As of December 31, 2007, the Company has U.S. Federal net operating loss carryforwards of approximately \$11.4 million that will expire in the years 2023 through 2026. 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 15 – Discontinued operations

On August 5, 2007 the Company completed the sale of Am-Hal Ltd. 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.

	Six Months Ended June 30, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
	(U.S. Dollars in thousands)		
Real estate income	\$ 4,965	\$ 9,405	\$ 9,011
Pre-tax income (loss) from discontinued operations	\$ (521)	\$ (1,331)	\$ 218
Income tax expense	45	146	60
After -tax gain (loss) from discontinued operations	(566)	(1,477)	158
Minority interest	149	417	(200)
Income (loss) from discontinued operations, net of income taxes	(417)	(1,060)	(42)

	December 31, 2006
	(U.S. Dollars in thousands)
Cash	\$ 4,514
Other current assets	1,541
Property and equipment	69,319
Other non-current assets	1,140
Total assets	\$ 76,514
Current liabilities	\$ 14,543
Deposits from tenants - long term	53,813
Other none current liabilities	4,057
Total liabilities	\$ 72,413
Minority interest	2,522

Note 16 – 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,	
	2007	2006
	%	%
Bay Heart Ltd.	37	37
Carmel Containers Systems Ltd.	--	21.8
Chemtankers Management B.V.	50	--
Conmart Ltd.	50	--
Hod Hasharon Sport Center (1992) Limited Partnership	50	50
Temco International Ltd.	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,		
	2007	2006	2005
	(U.S. Dollars in thousands)		
Revenues	\$ 22,326	\$ 100,567	\$ 140,197

Gross profit	2,577	12,707	30,918
Net income (Loss)	(3,745)	57	15,803

As of December 31,

	2007	2006
	(U.S. Dollars in thousands)	
Property and equipment	\$ 49,059	\$ 56,835
Other assets	40,915	63,240
Total assets	\$ 89,974	\$ 120,075
Total liabilities, including bank borrowings	\$ 93,041	\$ 104,176

Note 17 – 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.

The real estate rental segment consists of rental property owned in Israel and the United States leased to unrelated parties, and operations of Am-Hal Ltd., a wholly-owned subsidiary which owns and operates a chain of senior citizens facilities located in Israel. 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 Coral World International Limited (marine parks located around the world) and 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”).

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

	Fiscal Year Ended December 31,		
	2007	2006	2005
	(U.S. Dollars in thousands)		
Revenues:			
Finance	\$ 4,867	\$ 4,203	\$ 12,412
Chemical income	31,922		
Real estate income	--	2,423	233
Leisure-time	2,531	6,317	2,208
Intercompany adjustments	--	(9)	-
	39,320	12,934	14,853
Equity in earning of affiliates	(1,523)	1,610	6,666
Total	\$ 37,797	\$ 14,544	\$ 21,519

Equity in Earnings (losses) of Affiliates:

Finance	\$ 57	\$ 566	\$ 106
Chemical income	(258)		
Real estate rental	(1,535)	(676)	5,448
Leisure-time	213	1,720	1,112
Others	--	--	--
Total	\$ (1,523)	\$ 1,610	\$ 6,666

Interest Income:

Finance	\$ 3,954	\$ 1,479	\$ 1,567
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Interest Expense:

Finance	\$ 9,783	\$ 4,248	\$ 4,259
Chemical	148	--	-
Leisure-time	191	83	162
Intercompany adjustments	-	(3)	-
Total	\$ 10,122	\$ 4,328	\$ 4,421

Pretax Operating (Loss) Income:

Finance	\$ (20,349)	\$ (11,529)	\$ (20,325)
Chemical income	4,134		
Real estate rental	--	2,151	(78)
Leisure-time	111	4,404	245
	(16,104)	(4,974)	(20,158)
Equity in earning of affiliates	(1,523)	1,610	6,666
Total	\$ (17,627)	\$ (3,364)	\$ (13,492)

Income (Benefit) Tax Expense:

Finance	\$ (6,790)	\$ 2,518	\$ (2,967)
Chemical income	1,099		
Real estate rental	--	--	-
Leisure-time	66	67	58
Total	\$ (5,625)	\$ 2,585	\$ (2,909)

Net Income from continuing operation

Finance	\$ (13,502)	\$ (13,481)	\$ (17,252)
Chemical income	2,777		
Real estate rental	(1,535)	1,475	5,370
Leisure-time	258	6,057	1,299
Others	--	--	--
	(12,002)	(5,949)	(10,583)
Minority interest, net	(1,576)	(78)	4,667
Total	\$ (13,578)	\$ (6,027)	\$ (5,916)

Total Assets for year end:

Finance	\$ 404,016	\$ 330,548	\$ 88,498
Energy	361,323	259,860	29,960
Chemicals	336,024	--	--
Real estate rental	--	76,513	76,117
Leisure-time	2,964	2,874	17,568
Intercompany adjustments	(329,538)	(268,112)	(1,239)
Total	\$ 774,789	\$ 401,683	\$ 210,904

Investments in Affiliates for year end:

Finance	\$	19	\$	3,498	\$	8,360
Chemical		8,924				
Real estate rental		(325)		(2,574)		(3,456)
Leisure-time		397		357		15,066
Total	\$	9,015	\$	1,281	\$	19,970

Capital Expenditures:

Finance	\$	43	\$	28	\$	--
Real estate rental		1,050		1,300		9,794
Leisure-time		85		102		90
Total	\$	1,178	\$	1,430	\$	9,884

Depreciation, Amortization and Impairment:

Finance	\$	810	\$	66	\$	14,039
Chemical income		269				
Real estate rental		--		90		130
Leisure-time		340		186		207
Total	\$	1,419	\$	342	\$	14,376

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 18 – 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 \$95.3 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 \$68.2 million and \$48.8 million, respectively.

	As of December 31,			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(U.S. Dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$ 44,267	\$ 44,267	\$ 36,733	\$ 36,733
Deposits, notes and loans receivable	17,475	17,072	--	--
Investments	22,459	22,459	380	380
	<u>\$ 84,201</u>	<u>\$ 83,798</u>	<u>\$ 37,113</u>	<u>\$ 37,113</u>
Financial liabilities:				
Notes and loans payable	\$ 228,718	\$ 227,226	\$ 46,453	\$ 46,648
Debentures outstanding	79,696	80,802	59,172	58,353
	<u>\$ 308,414</u>	<u>\$ 308,028</u>	<u>\$ 105,625</u>	<u>\$ 105,001</u>

Note 19 – 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 2007 were \$0.6 million. The lease of the corporate office in New York expires in 2009, the lease of the office in Tel Aviv expires in 2008, the lease of the office in Herzelia Pituach expires in 2017 and the Kfar Saba lease expires in 2038. In the years 2008-2012, the combined annual lease payments on those premises will be in an aggregate amount of \$2.7 million, and thereafter, an amount totaling \$6.2 million.

In 2007 the Company paid annual lease payments of \$13,685,000. In the years 2008-2012, the combined annual lease payments on those premises will be in an aggregate amount of \$28.03 million.

- (b) Gadot leases four ships, with an aggregate loading capability of 49,324 tons. The lease period for two of the ships is until 2011. The lease period for one of the ships is until 2009, with an option to extend the term for two additional one-year periods. The lease period for one of the ships is until October 2008, with an option to extend the term for three additional one-year periods. The aggregate lease fees for the four leased ships in 2007 amounted to \$17 million. In 2008, the lease fees will amount to \$13,004,833 and will decrease to \$12,216,438 for the years 2009 and 2010 and thereafter will further decrease to \$2,804,500 for 2011. Gadot has ordered four additional ships to be built with a loading capability of 17,000 each, for a consideration of approximately \$28 million per ship. These ships will be delivered during 2009 and 2010.
- (c) The combined minimum annual lease payments of Gadot's offices and other land used in its operations is expected to amount to approximately \$314,000.
- (d) Gadot leases an 11,000 square meter storage tank facility located in the Kishon port in Haifa from the port authority. The lease expires in 2022. Gadot also leases an additional 30,000 square meter area from the port authority located near the southern terminal in the port of Haifa in connection with its storage and loading services. This lease expires in 2014. Gadot leases an additional 18,000 square meters area located adjacent to the southern terminal land for its storage facility and for its analytical and quality assurance laboratory. The lease payments for the land in the southern port leased from the Haifa port authority in 2007 was approximately \$2.8 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 \$1.8 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) Gadot is party to consulting and management agreements with some of its subsidiaries. These agreements are extended automatically for a term of one year, unless terminated by one of the parties.
- (g) 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.
- (h) The Company has issued guarantees on bank loans to its investees and subsidiaries totaling \$27.4 million as follows:
 - (1) The Company provided a \$5.2 million guarantee on indebtedness incurred by Bay Heart.
 - (2) The Company provided a \$1.1 million guarantee to Galha (1960) Ltd, for the payment of the Company's subsidiary of a final judgment, if entered against the Company's subsidiary. (See below)
 - (3) \$21.1 million guarantees of Gadot for outstanding loans.
- (i) The Company made a commitment to invest \$2.8 million in Star II (2000) L.P.
- (j) Legal Proceedings:
 - (1) 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.
 - (2) 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. At this stage, the Company cannot estimate the impact this claim will have on it. In March 2008 the dispute was submitted to mediation by order of the court, with the consent of the parties.

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-
- (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. Gadot has not made any provisions in its financial statements against these claims.
 - (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. According to the estimate of the port authority, the cost of purifying the ground is estimated to be between \$377,000 and \$940,000. 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. Gadot has not made any provisions in its financial statements with respect to this matter.

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.

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.

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>
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)

	Note	December 31,	
		2006	2005
		Reported amount	Reported amount
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
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.

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BAY HEART LTD.
STATEMENTS OF OPERATIONS - CONSOLIDATED
(in thousand NIS)

	Note	Year ended December 31,		
		2006	2005	2004
		Reported amount	Reported amount	Reported amount
Revenues	13A	18,129	15,172	15,812
Operating expenses	13B	<u>13,364</u>	<u>12,602</u>	<u>13,104</u>
Gross profit		4,765	2,570	2,708
General and administrative expenses	13C	<u>2,757</u>	<u>(2,846)</u>	<u>2,867</u>
Operating income (loss)		2,008	(276)	(159)
Financing expenses, net	13D	<u>9,733</u>	<u>14,526</u>	<u>9,308</u>
Loss after financing expenses, net		(7,725)	(14,802)	(9,467)
Other expenses, net	13E	<u>-</u>	<u>(923)</u>	<u>(9,411)</u>
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.

BAY HEART LTD.
STATEMENTS OF OPERATIONS - COMPANY
(in thousand NIS)

	Note	Year ended December 31,		
		2006	2005	2004
		Reported amount	Reported amount	Reported amount
Revenues	13A	17,730	14,784	15,276
Operating expenses	13B	13,327	12,565	13,067
Gross profit		4,403	2,219	2,209
General and administrative expenses	13C	2,733	2,824	2,834
Operating income (loss)		1,670	(605)	(625)
Financing expenses, net	13D	9,151	13,636	8,514
Loss after financing expenses, net		(7,481)	(14,241)	(9,139)
Other expenses, net	13E	-	(923)	(9,411)
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		(7,725)	(15,725)	(18,878)
Loss per share (in NIS)				
Loss per share of NIS 1.00 par value		(1.65)	(3.37)	(4.04)
Number of shares used in above computation		4,672,732	4,672,732	4,672,732

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

BAY HEART LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(in thousand NIS)

Share capital	Deficit	Total
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Balance - January 1, 2004	20,099	(26,077)	(5,978)
Activity during 2004 (Reported amounts):			
Loss for the year	-	(18,878)	(18,878)
Balance - December 31, 2004	20,099	(44,955)	(24,856)
Activity during 2005 (Reported amounts):			
Loss for the year	-	(15,725)	(15,725)
Balance - December 31, 2005	20,099	(60,680)	(40,581)
Activity during 2006 (Reported amounts):			
Loss for the year	-	(7,725)	(7,725)
Balance -December 31, 2006	20,099	(68,405)	(48,306)

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
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.

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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
Appendix A : Adjustment required to present cash flows from operating activities			
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 : Non-cash transactions

Conversion of long-term loans into short term loans	-	101,998	-
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The accompanying notes are an integral part of the financial statements.

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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.

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BAY HEART LTD.
STATEMENTS OF CASH FLOWS - COMPANY
(in thousand NIS)

	Year ended December 31,		
	2006	2005	2004
	Reported amount	Reported amount	Reported amount
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	-
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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).
- 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.

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. 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.

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:

	<u>%</u>
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

<u>Consolidated</u>		<u>Company</u>	
<u>December 31,</u>		<u>December 31,</u>	
<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Reported amount</u>	<u>Reported amount</u>	<u>Reported amount</u>	<u>Reported amount</u>

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

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,	
	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
	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
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:

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

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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	
	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
	<u>4,997</u>	<u>4,264</u>	<u>4,902</u>	<u>4,245</u>

* Includes an amount of NIS 748 thousand due to interested parties as of December 31, 2006

Note 8 – Long-Term Banks Loans

A. Composition

Consolidated

Company

	Interest rate	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
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
	142,864	142,089

C. The liabilities are secured by liens (see Note 11).

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

	December 31,	
	2006	2005
	Reported amount	Reported amount
(in thousand NIS)		
Accrued severance pay	168	164
Less: amounts funded	(168)	(164)
	-	-

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.

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 which operates cinemas in 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:

	<u>thousand NIS</u>
2007	9,248
2008	6,309
2009	4,826
2010	4,148
2011 and onwards	26,636
Total	<u>51,167</u>

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

- 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.

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
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
	Reported amounts	Reported amounts	Reported amounts
	(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 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.

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
	<u>177</u>	<u>5,442</u>	<u>5,619</u>
Long-term loans receivable	-	2,397	2,397
	<u>177</u>	<u>7,839</u>	<u>8,016</u>
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
	<u>7,353</u>	<u>25,952</u>	<u>33,305</u>
Long-term liabilities			
Bank loans	135,511	-	135,511
Due to interested parties	53,768	-	53,768
Tenant deposits	545	-	545
	<u>189,824</u>	<u>-</u>	<u>189,824</u>
	<u>197,177</u>	<u>25,952</u>	<u>223,129</u>
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
	<u>119</u>	<u>4,549</u>	<u>4,668</u>
Long-term loans receivables	-	347	347
	<u>119</u>	<u>4,896</u>	<u>5,015</u>
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
	<u>6,930</u>	<u>20,610</u>	<u>27,540</u>

Long-term liabilities			
Bank loans	143,278	-	143,278
Due to interested parties	33,319	-	33,319
Tenant deposits	532	-	532
	<u>177,129</u>	<u>-</u>	<u>177,129</u>
	<u>184,059</u>	<u>20,610</u>	<u>204,669</u>

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
	<u>89</u>	<u>5,406</u>	<u>5,495</u>
Long-term loans receivable	16,815	-	16,815
	<u>16,904</u>	<u>5,406</u>	<u>22,310</u>
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
	<u>7,148</u>	<u>25,857</u>	<u>33,005</u>
Long-term liabilities			
Loans from banks	134,941	-	134,941
Due to interested parties	53,734	-	53,734
Tenant deposits	545	-	545
	<u>189,220</u>	<u>-</u>	<u>189,220</u>
	<u>222,225</u>	<u>25,857</u>	<u>196,368</u>
December 31, 2005			
Current Assets			
Cash and cash equivalents	-	36	36
Trade accounts receivable	-	2,563	2,563
Receivables and other current assets	135	1,901	2,036

	135	4,500	4,635
	<u>11,184</u>	<u>-</u>	<u>11,184</u>
Long-term loans receivable	11,184	-	11,184
	<u>11,319</u>	<u>4,500</u>	<u>15,819</u>
	<u>6,740</u>	<u>12,162</u>	<u>18,902</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>
	<u>142,501</u>	<u>-</u>	<u>142,501</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>

BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 17 – **Condensed Financial Statements in Nominal Terms (Cont.)**

A. Balance sheets

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	<u>(in thousand NIS)</u>	
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>5,495</u>	<u>4,635</u>
Investments, loans and long-term receivables	15,054	9,422
Fixed assets, net	111,362	105,682
Other assets	2,812	3,634
	<u>134,723</u>	<u>123,373</u>
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
	<u>33,005</u>	<u>27,331</u>
Long - term liabilities		
Bank loans	134,941	142,501
Due to interested parties	53,734	33,286
Tenant deposits	545	532
	<u>189,220</u>	<u>176,319</u>
Shareholders' deficiency	<u>(87,502)</u>	<u>(80,227)</u>
	<u>134,723</u>	<u>123,373</u>

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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)		
Revenues	17,730	14,784	15,276
Operating expenses	<u>12,828</u>	<u>12,028</u>	<u>12,238</u>
Gross profit	4,902	2,756	3,038
General and administrative expenses	<u>2,733</u>	<u>2,824</u>	<u>2,834</u>
Operating income	2,169	(68)	204
Financing expenses, net	<u>9,151</u>	<u>13,630</u>	<u>8,514</u>
Loss before losses of the subsidiary	(6,982)	(13,698)	(8,310)
Losses of the Subsidiary	<u>243</u>	<u>558</u>	<u>350</u>
Loss for the year	<u>(7,225)</u>	<u>(14,256)</u>	<u>(8,660)</u>

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BAY HEART LTD.
NOTES TO THE FINANCIAL STATEMENTS

Note 17 – Condensed Financial Statements in Nominal Terms

C. Statements of changes in shareholders' deficiency

	Share capital	Accumulated deficit	Total
	(in thousand NIS)		
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)
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.

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

	December 31,		December 31,	
	2006	2005	2006	2005
	(in thousand NIS)		(in thousand US dollars)	
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
	5,619	4,668	1,332	1,016
Investments, loans and long-term receivables	2,397	347	567	75
Fixed assets, net	150,484	142,010	35,618	30,852
Other assets	3,322	4,015	786	872

	161,822	151,040	38,303	32,815
Current liabilities				
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
	33,305	27,540	7,883	5,983
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
	189,824	177,129	44,929	38,482
Shareholders' deficiency	(61,307)	(53,629)	(14,509)	(11,650)
	161,822	151,040	38,303	32,815

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
	16,075	15,375	15,594	3,801	3,409	3,480
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)
Other comprehensive income:						
Translation adjustment	-	-	-	(1,031)	625	(199)
Comprehensive loss	(7,678)	(14,721)	(9,117)	(2,859)	(2,618)	(2,229)

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
NIS				
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)
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)
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)

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
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

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
	<u>687</u>	<u>887</u>	<u>(1,185)</u>	<u>6</u>	<u>278</u>	<u>(293)</u>
	<u>4,467</u>	<u>9,640</u>	<u>3,312</u>	<u>898</u>	<u>2,210</u>	<u>707</u>

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.

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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.

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

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	14,704	12,770
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	1,092	12,146
Property and equipment, net (Note 6)	52,007	15,065
Deferred income taxes (Note 7)	341	472
Minority share of shareholders deficit of subsidiary	998	497
Total assets	69,142	40,950

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

CORAL WORLD INTERNATIONAL LTD.

CONSOLIDATED BALANCE SHEETS

US Dollars

(in thousands)	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

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.

CORAL WORLD INTERNATIONAL LTD.

CONSOLIDATED STATEMENTS OF INCOME

US dollars

(in thousands, except share data)	2006	Year ended December 31, 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	5,867	4,149	1,912
Financing income (expenses), net	147	(865)	(32)
Income before taxes on income	6,014	3,284	1,880
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	<u>6,662</u>	<u>5,717</u>	<u>5,207</u>
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	<u>(10,110)</u>	<u>(6,048)</u>	<u>(2,794)</u>
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	<u>1,692</u>	<u>(1,871)</u>	<u>(1,345)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>446</u>	<u>(160)</u>	<u>57</u>
Increase in cash and cash equivalents	(1,310)	(2,362)	1,125
Balance of cash and cash equivalents - beginning of the year	<u>8,742</u>	<u>11,104</u>	<u>9,979</u>
Balance of cash and cash equivalents - end of the year	<u>7,432</u>	<u>8,742</u>	<u>11,104</u>

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

(in thousands)	US dollars		
	2006	Year ended December 31, 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

(in thousands)	US dollars		
	2006	Year ended December 31, 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.

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 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.

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.

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.

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.

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:

	US dollars	
(in thousands)	2006	December 31, 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	
	2006	December 31, 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	
	2006	December 31, 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.

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	
	2006	December 31, 2005
Current assets	-	4,811
Property and equipment	-	17,030
Other assets	-	3,450
	<u>-</u>	<u>25,298</u>
Total assets	-	25,298

Total liabilities	-	26,328
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B. See Note 17 regarding an affiliated company held by the Company in the past.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 6 – PROPERTY AND EQUIPMENT, NET

A. Composition:

(in thousands)	US dollars	
	2006	December 31, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 7 – DEFERRED INCOME TAXES

A. Deferred income taxes:

(in thousands)	US dollars	
	2006	December 31, 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:

(in thousands)	US dollars	
	2006	December 31, 2005
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.

CORAL WORLD INTERNATIONAL LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 8 – CREDIT FROM BANKING INSTITUTIONS

A. Composition:

(in thousands)	Interest rate as of 2006	US dollars	
		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:

(in thousands)	US dollars	
	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:

(in thousands)	Interest rate as of 2006	US dollars	
		December 31, 2006	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
		41,424	6,132
Less: current maturities		(1,927)	(5,039)

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
	<u>34,256</u>
No repayment date has been set	7,168
	<u>41,424</u>

C. Liens – see Note 12B.

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.

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.

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)	2006	Year ended December 31, 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)	2006	Year ended December 31, 2005	2004
Advertising	1,112	1,091	1,391
Payroll and related expenses	674	626	641
Others	498	422	411
	2,284	2,139	2,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

NOTE 16 – GENERAL AND ADMINISTRATIVE EXPENSES

(in thousands)	US dollars		
	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

(in thousands)	US dollars		
	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:

(in thousands)	US dollars		
	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>

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)
	<u>1,677</u>	<u>1,533</u>	<u>78</u>

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.

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)
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

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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OPHIR HOLDINGS LTD.
(An Israeli Corporation)
2006 ANNUAL REPORT

OPHIR HOLDINGS LTD.
2006 ANNUAL REPORT
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REPORT OF INDEPENDENT AUDITORS

To the shareholders of

OPHIR HOLDINGS LTD.

We have audited the consolidated financial statements of Ophir Holdings Ltd. and its subsidiaries (the "Company"): balance sheets as of December 31, 2006 and 2005 and the related statements of income, 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Boards (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005 and the consolidated results of operations and cash flows of the Company for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in Israel.

As explained in note 1b, the financial statements referred to above are presented in new Israeli shekels, in conformity with accounting standards issued by the Israel Accounting Standards Board .

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 13 to the consolidated financial statements.

Tel-Aviv, Israel
 29 March, 2007

Kesselman & Kesselman
Certified Public Accountants (Isr.)

OPHIR HOLDINGS LTD.

CONSOLIDATED BALANCE SHEETS

	Note	December 31	
		2006	2005
NIS in thousands (see note 1b)			
Assets			
CURRENT ASSETS :			
Cash and cash equivalents	1j	1,325	2,396
Short term investments			25,018
Accounts receivable:			
Related parties		7,732	54,952
Other	12a	2,080	11,062
Total current assets		11,137	93,428

LAND - BUSINESS INVENTORY	1e;7(2)	13,048	13,048
INVESTMENTS:			
Associated companies	3	157,774	157,248
Other companies	4;7		1,387
Loan to related party	10b	967	8,306
		158,741	166,941
		182,926	273,417

(_____)
 (_____)
DIRECTORS (_____)
 (_____)
 (_____)

Date of approval of the financial statements: March 29, 2007

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	Note	December 31	
		2006	2005
NIS in thousands (see note 1b)			
Liabilities and shareholders' equity			
CURRENT LIABILITIES:	11		
Bank credit and loans (mainly current maturities)	12b		3,834
Accounts payable and accruals	12c	2,298	4,245
T o t a l current liabilities		2,298	8,079
LONG-TERM LIABILITIES:	11		
Bank loans (net of current maturities)	5		22,552
Capital notes to an associated company	6	151,601	151,601
Capital note to related party	6	1,069	1,069
Payables in respect of acquisition of land - business inventory	7(2)	11,894	11,894
T o t a l long-term liabilities		164,564	187,116
T o t a l liabilities		166,862	195,195
COMMITMENTS	7		
MINORITY INTEREST		24	25
SHAREHOLDERS' EQUITY	8	16,040	78,197
		182,926	273,417

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

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OPHIR HOLDINGS LTD.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Note	2006	2005	2004
NIS in thousands (see note 1b)				
REVENUES AND GAINS:				
From lease of buildings			3,649	6,737
Share in profits (losses) of associated companies - net	3	(475)	651	(1,150)
Gain from sale and increase in value of marketable securities- net		186	1,815	2,183
Gain from sale of other investment		326		
Dividend received from other companies			79	11,623
Management fees from related parties	10a			433
Financial income - net	10a;12f	922	183	
Others			240	2,141
		959	6,617	21,967
EXPENSES AND LOSSES:				
Operating cost of leased buildings (including depreciation)			1,909	2,703
Impairment of investments in associated companies and other companies	3;4	452	4,571	950
General and administrative expenses - net	10a	806	2,314	1,480
Loss from sale of investments in associated companies			1,618	
Loss (gain) from sale of real estate			7,519	(535)
Financial expenses - net	10a;12f			700
Others			106	
		1,258	18,037	5,298
INCOME (LOSS) BEFORE TAXES ON INCOME		(299)	(11,420)	16,669
TAXES ON INCOME (TAX SAVING)	9c	(141)	(5,255)	2,374
INCOME (LOSS) AFTER TAXES ON INCOME (TAX SAVING)		(158)	(6,165)	14,295
MINORITY INTEREST SHARE IN LOSSES OF A SUBSIDIARY		1		1
NET INCOME (LOSS) FOR THE YEAR		(157)	(6,165)	14,296

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

OPHIR HOLDINGS LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Capital surplus	Appropriation for distribution of dividend subsequent to balance sheet Date	Retained earnings (accumulated deficit)	Total
NIS in thousands (see note 1b)					
BALANCE AT JANUARY 1, 2004	2,832	80,468		127,686	210,986

CHANGES DURING 2004:

Net income				14,296	14,296
Dividend paid				(30,000)	(30,000)
Appropriation for distribution of dividend subsequent to balance sheet date			90,830	(90,830)	
BALANCE AT DECEMBER 31, 2004	2,832	80,468	90,830	21,152	195,282
CHANGES DURING 2005:					
loss				(6,165)	(6,165)
Dividend paid		(5,103)	(90,830)	(14,987)	(110,920)
Appropriation for distribution of dividend subsequent to balance sheet date		(55,000)	55,000		
BALANCE AT DECEMBER 31, 2005	2,832	20,365	55,000	-,-	78,197
CHANGES DURING 2006:					
loss				(157)	(157)
Dividend paid, see note 8b		(7,000)	(55,000)		(62,000)
Appropriation for distribution of dividend subsequent to balance sheet date, see note 8c		(10,300)	10,300		
BALANCE AT DECEMBER 31, 2006	2,832	3,065	10,300	(157)	16,040

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

(Continued) - 1

OPHIR HOLDINGS LTD.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	2006	2005	2004
	NIS in thousands (see note 1b)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) for the year	(157)	(6,165)	14,296
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities (a)	(2,306)	8,820	(3,032)
Net cash provided by operating activities (used in operating activities)	(2,463)	2,655	11,264
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of investments in other companies	362	75,289	21,242
Proceed from sale of Associated Company		32,564	
Proceed from sale of leased buildings, net (b)	9,437	42,397	7,847
Investment in associated companies (including capital notes and loans - net)	(650)	(746)	(499)
Investments in other companies	(391)	(496)	(549)
Short term investments, net	25,204	(25,073)	(196)
Other	1,289		1,935
Net cash provided by investing activities	35,251	123,935	29,780
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term bank loans- net	(26,352)	(42,172)	(8,382)
Repayment of related party company loan	7,300		
Related parties	(7,732)	(55,000)	
Dividend paid (b)	(7,000)	(29,990)	(32,953)
Short-term bank credit and loans - net	(75)	74	(30)

Net cash used in financing activities	(33,859)	(127,088)	(41,365)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,071)	(498)	(321)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,396	2,894	3,215
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	1,325	2,396	2,894

(Concluded) - 2

OPHIR HOLDINGS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2006	2005	2004
	NIS in thousands (see note 1b)		
(a) Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Income and expenses not involving cash flows:			
Share in losses (profits) of associated companies - net	475	(651)	1,150
Depreciation		729	1,459
Deferred income taxes - net		(2,550)	(126)
Minority interest in losses of a subsidiary	(1)		(1)
Loss (gain) from sale of fixed assets - net		7,519	(535)
Gain from sale and increase in value of marketable securities - net	(186)	(1,815)	(2,183)
Loss from sale of associated companies		1,618	
Gain from sale of investment in other company	(326)		(305)
Impairment (reversal of impairment) of investment in associated companies and others - net	452	4,571	(873)
Linkage differences on long-term bank loans- net	41	1,426	676
Linkage differences and interest on loans to associated and others companies and accounts receivable of fixed assets	(844)	(1,770)	(1,604)
	(389)	9,077	(2,342)
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable	78	1,370	(369)
Decrease in accounts payable and accruals	(1,995)	(1,627)	(321)
	(1,917)	(257)	(690)
	(2,306)	8,820	(3,032)

(b) Additional information with respect to investing and financing activities not involving cash flows

- a. Receivables include amounts of NIS 861,000 and NIS 515,000 that have been deposited in trust accounts. These amounts relate to the consideration received from the sale of buildings sold in 2005 and 2003 respectively. These amounts did not appear in the statements of cash flows for the above-mentioned years, and will be reflected in the statement of cash flows when the deposits are repaid. During the course of the reported period, the respective amounts of NIS 6.128 million and NIS 3.309 million were received from the above trust accounts; these amounts were reflected in the statement of cash flows from investing activities.
- b. In the wake of a resolution by the Board of Directors dated February 15, 2006, the Company paid a dividend of NIS 55 million during the first quarter of 2006. The dividend paid was offset against the shareholders' outstanding debit balances.

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

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows:

a. General:

- 1) Ophir Holdings Ltd. (“the Company”) is a holding and investment company. The subsidiary Merkazim Investments Ltd. is engaged in the renting of commercial buildings. In 2003, this company sold all its holdings in the commercial buildings that were designated for rent.

The subsidiary, New Horizons (1993) Ltd., holds a number of real estates (designated for sale), which were purchased from a previous related party, see also note 7(2).

As to the activities of the associated companies, see note 3c.

- 2) Definitions:

Subsidiary – a company controlled or owned to the extent of over 50%, the financial statements of which have been consolidated with the financial statements of the Company.

Associated company – a company controlled to the extent of 20% or over (which is not a subsidiary), or a company less than 20% controlled which complies with the condition relating to “significant influence”, as prescribed by Opinion 68 of the Institute of Certified Public Accountants in Israel (the “Israeli Institute”), the investment in which is presented by the equity method.

Other company – a company to which the conditions specified in the preceding paragraphs do not apply.

The Group – the Company, its subsidiaries and its associated companies.

Related parties – as defined in Opinion 29 of the Israeli Institute.

- 3) Principles of accounting

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Israel (Israeli GAAP). Israeli GAAP vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 13.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued) :

b. Financial statements presentation basis

The company draws up and presents its financial statements in Israeli currency (hereafter – shekels or NIS), in accordance with the provisions of Israel Accounting Standard No. 12 – “Discontinuance of Adjusting Financial Statements for Inflation” – of the IASB, which establishes principles for transition to nominal reporting, commencing January 1, 2004 (hereafter - the transition date). Accordingly, amounts that relate to non-monetary assets (including depreciation and amortization thereon)/ investments in associated companies / “permanent” investments/ and equity items, which originate from the period that preceded the transition date, are based on the adjusted-for-inflation data (based on the CPI for December 2003), as previously reported. All the amounts

originating from the period after the transition date are included in the financial statements at their nominal values.

c. Principles of consolidation:

- 1) The consolidated financial statements include the accounts of the Company and its subsidiaries. The companies included in consolidation are listed in note 2.
- 2) Intercompany balances and transactions have been eliminated.

d. Short term investments – marketable securities

These securities are stated at market value.

The changes in value of the above securities are carried to income.

e. Land – business inventory

The land is presented at cost, which – in managements' estimation – is lower than market value.

According to the agreements for the purchase of land, the Company might pay additional costs of up to 90% of the net sale proceeds, see also note 7(2).

f. Investments:

- 1) Associated companies:
 - (a) The investments in these companies are accounted for by the equity method. The company reviews – at each balance sheet date – whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of its investment in associated companies . The balance of the investment as of December 31, 2006 is presented net of a provision for the impairment in value of an associated company, see i. below and note 3.
 - (b) The excess of cost of the investment in associated companies over the Company's share in their equity in net assets at date of acquisition ("excess of cost of investment") represents the amount attributed to land and buildings. The amount attributed to buildings is amortized in equal annual installments of 4% per year. The above associated companies were sold during the course of 2005.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

- 2) Other companies

The investments in the shares of these companies, are stated at cost, net of impairment for decrease in value, which is not of a temporary nature.

g. Deferred income taxes:

- 1) Deferred taxes were computed in respect of differences between the amounts presented in these statements and those taken into account for tax purposes. As to the factors in respect of which deferred taxes have been included - see note 9b.

Deferred tax balances were computed at the tax rate expected to be in effect at time of release to income from the deferred tax accounts. The amount of deferred taxes presented in the income statement reflects changes in the above balances during the year.

- 2) Taxes which would apply in the event of disposal of investments in subsidiaries and associated companies have not been taken into account in computing the deferred taxes, since as of the date of approval of these financial statements it is the Company's policy to hold these investments, not to realize them.

h. Revenue recognition

Income from leasing of buildings was recognized on the accrual basis, in accordance with the terms of the agreements with tenants.

i. Impairment of assets:

The company reviews – at each balance sheet date – whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of fixed assets and identifiable intangibles, including goodwill. When such indicators of impairment are present, the company evaluates whether the carrying value of the asset in the company's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount.

The recoverable value of an asset is determined according to the higher of the net selling price of the asset or its value in use to the company. The value in use is determined according to the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal.

The impairment loss is carried directly to income. Where indicators are present that beneficial events have occurred or beneficial changes in circumstances have taken place, the impairment provision in respect of the asset (other than goodwill) may be cancelled or reduced in the future, so long as the recoverable value of the asset has increased, as a result of changes in the estimates previously employed in determining such value.

During 2006 the Company recorded an impairment charge on its investment in other companies of NIS 452 thousand, see also note 4 (2005 – NIS 4,571 thousand).

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

j. Cash equivalents

The Group considers all highly liquid investments, which include short-term bank deposits (up to three months from date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

k. Loss per NIS 1 of par value of shares

The financial statements do not include data regarding loss per NIS 1 of par value of shares, since the data would not provide significant additional information to that otherwise provided by the financial statements.

l. Format of income statements

In view of the nature of the Company's activities – holding of companies which operate in different fields – the Company is of the opinion that concentrated presentation of all revenue and gain items as a group, and of all expense and loss items in a separate group is more suitable to reflect its activities.

m. Linkage basis

Balances the linkage arrangements in respect of which stipulate linkage to the last index published prior to date of payment are stated on the basis of the last index published prior to the latest balance sheet date (the index for November).

n. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

o. Dividend declared subsequent to balance sheet date

Liabilities relating to dividends declared subsequent to balance sheet date are included in the accounts for the period in which the declaration was made. The amount declared is appropriated, however, from retained earnings, and reported as a separate item in the shareholders' equity – "Dividend declared subsequent to balance sheet date".

p. Recently issued accounting pronouncements in Israel:

1) Israel Accounting Standard No. 29 – "Adoption of International Reporting Financial Standards (IFRS)"

In July 2006, the Israel Accounting Standards Board issued Israel Accounting Standard No. 29 – "Adoption of International Reporting Financial Standards (IFRS)" (hereafter - Standard 29). Standard 29 stipulates that companies, which are subject to the Securities Law, 1968 and are required to report pursuant to regulations issued thereunder, shall draw up their financial statements under International Financial Reporting Standards (IFRS) with effect from reporting periods commencing on January 1, 2008 (i.e.. commencing the financial statements for the first quarter of 2008). Pursuant to the provisions of Standard 29, such companies and other companies may elect early adoption of the Standard, and prepare their financial statements under IFRS, commencing with the financial statements that are published subsequent to July 31, 2006.

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OPHIR HOLDINGS LTD.NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

The standard prescribes that companies, which currently do not draw up their financial statements under IFRS, and are required or elect, as stated above, to prepare their financial statements for the first time under IFRS, shall apply the provisions specified in International Financial Reporting Standard No. 1 ("IFRS 1") - "First-Time Adoption of International Financial Reporting Standards" in making the transition. IFRS 1, which deals with first-time transition to reporting under IFRS, provides that, in the first annual financial statements that are drawn up under IFRS (including the interim financial statements for that year), all the latest IFRS standards in effect at the end of the reporting year in which the company reports under IFRS for the first time, shall be applied retrospectively (with the exception of certain exemptions and prohibitions, as referred to below). IFRS 1 specifies two groups of exceptions to the principle of retrospective application: (1) exemptions from mandatory retrospective application with regard to certain topics, while providing the option to utilize all or part of those exemptions, and (2) prohibitions concerning mandatory retrospective application with regard to defined topics. Pursuant to the provisions of IFRS 1, the first financial statements drawn up under IFRS shall include at least one year's comparative data. Accordingly, a company that draws up its financial statements under IFRS for the first time for periods commencing after January 1, 2008, and elects to present comparative data for one year only, shall be required, pursuant to IFRS 1, to prepare an opening balance sheet as of January 1, 2007, which shall be drawn up under IFRS. In preparing this opening balance sheet, all the latest IFRS standards, as referred to above, with regard to recognition, non-recognition, classification and measurement of all the company's assets, liabilities and shareholders' equity items, shall be applied. IFRS 1 also establishes certain disclosure requirements that apply to the annual financial statements that are drawn up for the first time under IFRS. Pursuant to these disclosure requirements, companies applying IFRS for the first time are required to explain what effect the transition from the previous generally accepted accounting principles to IFRS has had on the reported financial position, operating results and cash flows. Also, companies are required to include notes providing reconciliations of the data reported under the previous accounting principles, to the data reported under IFRS, in respect of their shareholders' equity and statements of income (loss) as of certain dates and for certain prior periods.

In addition, Standard 29 requires companies, which draw up their financial statements under IFRS for the first time for periods commencing after January 1, 2008, to disclose, in a note to their financial statements for 2007, the balance sheet data as of December 31, 2007 and income statement data for the year ended December 31, 2007, as they would appear after applying IFRS recognition, measurement and presentation rules.

IFRS differ from general accounting principles accepted in Israel and, accordingly, financial statements drawn up under IFRS might reflect a financial position, operating results and cash flows that are significantly different from those presented in these financial statements. Application of IFRS requires a proper arrangement from the company, including making certain decisions relating to the manner of determining assets and liabilities at the transition date and with regard to setting an accounting policy for various topics. The company is currently assessing the implications of the transition to reporting under IFRS, including the date for first-time adoption of IFRS by the company. At this stage, the company is unable to estimate the effect that the adoption of IFRS will have on its financial statements

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OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

- 2) Israeli Accounting Standard No. 23 – “Accounting Treatment Applied to Transactions between an Entity and its Controlling Shareholder”.

In December 2006, the IASB issued Accounting Standard No. 23 – “Accounting Treatment Applied to Transactions between an Entity and its Controlling Shareholder”

The standard, which does not obligate entities that are not subject to the Securities Law, 1968, provides that assets and liabilities, in respect of which a transaction was carried out between an entity and its controlling shareholder, shall be measured at the date of transaction at their fair value, and the difference between fair value and the consideration set in the transaction shall be carried to shareholders’ equity.

Those provisions replace the requirements of the Securities Regulations (Presentation of Transactions between an Entity and its Controlling Shareholder in Financial Statements), 1996, whereunder, assets transferred as above would be measured at their carrying amount in the transferor’s accounts, while the difference between this value and the consideration set in those transactions is carried to shareholders’ equity.

Under the provisions of the standard, in case the difference between fair value and the consideration arises from a benefit granted by the controlling shareholder to the entity controlled thereby, the said difference shall be credited to capital surplus within the entity’s shareholders’ equity; while in case the said difference arises from a benefit granted by the entity to its controlling shareholder, such difference shall be carried to the entity’s retained earnings.

In addition, the difference between the fair value of the asset and its carrying amount in the transferor’s accounts shall be recognized as a gain or loss in the transferor’s accounts.

Under the standard, differences as above, arising in the financial statements of an entity as a result of a transaction with its controlling shareholder, and carried to retained earnings or capital surplus, shall constitute, from the controlling shareholder’s point of view, an owners’ withdrawal or an owners’ investment, respectively, and shall be presented accordingly in the financial statements of the controlling shareholder.

The standard includes specific provisions pertaining to assets transfers, assuming liabilities, indemnification and waiver and the grant or receipt of loans. The standard also sets a hierarchy for the measurement of fair value and includes disclosure requirements as to the nature and scope of transactions between an entity and its controlling shareholder, occurring during the reported period, as well as to the effect of these transactions on the entity’s income or loss for the reported period and its financial position.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

The standard shall apply to all transactions taking place between an entity and its controlling shareholder, except for a business combination under common control, that would be carried out subsequent to January 1, 2007. In addition, the standard would apply to a loan granted to a controlling shareholder or received therefrom, prior to the abovementioned effective date of the standard; the standard would apply to such a loan commencing the standard’s effective date.

At this stage, the company is examining the effect of the application of the standard on the financial statements. In the opinion of the company, the application of the standard is not expected to have a material effect on the financial statements in the coming periods.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 – INVESTMENTS IN SUBSIDIARIES

Following is a list of the subsidiaries consolidated in Ophir's financial statements:

Wholly-owned:

Ophir Financing Ltd. - inactive;

Maoz Financial Investments Ltd. ("Maoz") - inactive;

Merkazim Investments Ltd. ("Merkazim") a wholly-owned subsidiary of Maoz. During 2005 Merkazim ceased its activity.

80%-owned - New Horizons (1993) Ltd. ("New Horizons").

NOTE 3 – INVESTMENTS IN ASSOCIATED COMPANIES:

a. The investments are composed as follows:

	consolidated	
	December 31	
	2006	2005
	NIS in thousands	
Equity in net assets:		
Cost of shares	7,252	7,252
Share in accumulated undistributed profit (1)	80,400	81,825
Share in capital surplus derived by Mivnat Holdings Ltd. from sale of its investment in Industrial Buildings Ltd. to its Shareholders (see c(1) below)	66,065	66,065
	153,717	155,142
Long-term loans (2)	4,057	3,056
Less - provision for impairment of investment, see c(2) below		(950)
	157,774	157,248

- (1) Including accumulated erosion of capital notes and gains on dilution of holding in associated companies resulting from issuance of shares to a third party.
- (2) As of December 2006 the loans are linked to the Israeli CPI, bear interest at annual rates of 12% -6.5% and have no fixed maturity date.

b. The changes in the investments in 2006 are as follows:

	NIS in thousands
Balance at beginning of year	157,248
Changes during the year:	
Share in losses of associated companies - net	(475)
Loans to an associated company	650
Accrued linkage differentials and interest in respect of long-term loans	351
	157,774

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 – INVESTMENTS IN ASSOCIATED COMPANIES (continued):**c. Following are details relating to the associated companies:**

1) Mivnat Holdings Ltd. (“Mivnat”)

Mivnat was established in March 1993 by the Company, the subsidiary Merkazim and others, some of whom were interested parties, in order to acquire the Israeli Government’s shares in Industrial Buildings Ltd. (“Industrial Buildings”). During March 1993, Mivnat acquired these shares in consideration of NIS 1,053 million. Ophir holds 18.75% interest in Mivnat directly, and 25% interest jointly with Merkazim.

On December 31, 1998, Mivnat sold its holdings in Industrial Buildings to its shareholders (including the Company). Upon the consummation of the transaction, Mivnat ceased to have any rights in the shares of Industrial Buildings.

During 2005, the Company realized all of its shares in Industrial Buildings.

2) Lysh The Coastal High-way Ltd. (“L1”)

In June 1999, the Company entered into an investment agreement with Lysh Commercial and Road Services Ltd. (“L2”), a company controlled by Polar Investments Ltd. – an interested party in the Company, and with L1, a wholly-owned subsidiary of L2.

L1 has a 50% holding in Beit Herut-Lysh Development Company Ltd. (“BHL”), which has invested in a project for the leasing of commercial premises near Moshav Beit Herut (the “project”).

BHL developed 16,850 square meters of land owned by the Israel Lands Administration (the “Administration”), in accordance with resolution 717 of the Administration. A commercial project occupying approximately 10,000 square meters was constructed on that land initially, and there is an option to construct an additional 4,000 square meters at a later stage. The Company’s share in L1 is approximately 25% (its share in the project being approximately 12.5%). The project commenced in March 2000. As of December 31, 2006 and 2005, the Company invested in L1 approximately NIS 5.5 million.

The Company has also undertaken to provide guarantees in an amount equivalent to 25% of the construction costs. As of December 31, 2005, the Company’s share in the guarantees refer to the loans made to BHL amounts to approximately NIS 16 million.

The auditors of L1, while not qualifying their opinion on L1’s financial statements for 2005, drew attention to the financial position of BHL, whose financial statements presented a loss of approximately NIS 3.5 million (net of financial expenses in the amount of NIS 5.6 million) and negative working capital amounting to approximately NIS 3.7 million at December 31, 2006.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 – INVESTMENTS IN ASSOCIATED COMPANIES (continued):

In 2006, Laish Coastal Road Ltd. granted Laish Freedom House Ltd. shareholders' loans totaling approximately NIS 2.6 million (2005 -

approximately NIS 2 million).

During the course of 2005, the bank agreed to defer the capital repayments for 2005 and to spread these repayments over a period ending no later than March 31, 2006. The remaining outstanding balance will become repayable over a seventeen-year period ending on December 31, 2022.

BHL's management believes that the execution of the aforementioned arrangements will guarantee the continuance of BHL's regular operations.

In 2004, the Company wrote down its investment in BHL Company by NIS 950,000.

NOTE 4 – INVESTMENTS IN OTHER COMPANIES:

	Consolidated	
	December 31	
	2006	2005
	NIS in thousands	
Memadim Investments Ltd. ("Memadim") (a)	-, -	-, -
Mahalachim Investment in Technology Ltd. ("Mahalachim") (b)	-, -	1,351
Others	-, -	36
	-, -	1,387

- a. Memadim was established in 1995 by the Company, along with a group of companies, one of which is Industrial Buildings, for the purpose of real estate development. The Company directly holds 10% of the ownership and control of Memadim. see also note 7(1).

During the course of 2006, the Company recorded a provision for an impairment of investment which has been occurred this year in an amount of NIS 373,000 (2005 – NIS 4.571 million).

In July 2006, the Company entered into an agreement with Industrial Structures whereby the Company assigned to Industrial Structures for a consideration of NIS 1, all of its rights in Maimadim, including the shareholders' loans but excluding its holding in the shares of that company. It was also agreed that Industrial Structures would take over the obligation of the Company with respect to the guarantees provided to banks in connection with the above investment, and would endeavor to persuade the banks to agree to the proposed change of guarantor (see also note 7(1)). As of the date of the above financial statements, the procedures for introducing a substitute guaranties had not yet been completed.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – INVESTMENTS IN OTHER COMPANIES (continued):

- b. Mahalachim is a venture capital fund; the Company holds approximately 3.5% of shares therein. In 2004, the Company received a dividend in the amount of NIS 3,255,000 from Mahalachim. The share of the dividend that was carried to income amounted to NIS 1,320,000. The balance of the amount was used to reduce the amount of the investment.

During the reported year, Mahalachim realized its investment in Valor Ltd. for approximately NIS 59.4 million, thereby completing the sale of all its significant shareholdings. In June 2006, the Board of Directors of Mahalachim resolved upon the payment of a dividend of approximately NIS 36.4 million. The Company's share of this dividend amounted to approximately NIS 1.3 million, which sum was offset against the cost of the investment in Mahalachim.

During the course of the reported year, the Company made a provision for impairment of value with respect to the balance of its investment in Mahalachim.

NOTE 5 – LONG-TERM BANK LOANS:

- a. The loans are linked to the Israeli CPI and bear interest at the annual rate of 4%.
- b. An early repayment of 26.3 million (the balance of the said loans) was made in January and February 2006.

NOTE 6 – CAPITAL NOTES:

- a. On December 31, 1998, the Company and a subsidiary, Merkazim, issued capital notes to Mivnat with a par value of NIS 113,770,000 and NIS 37,831,000, respectively. The capital notes are unlinked and interest-free.

Capital notes with an aggregate par value of NIS 151,351,000 are repayable at par, upon demand of Mivnat, on January 1, 2005 and only on that date. After balance sheet date, the shareholders of Mivnat decided to extend the repayment date until January 1, 2007. The balance of the capital notes, NIS 250,000 par value, is repayable annually under the terms stipulated in the agreement.

- b. On December 31, 1998 and on June 30, 2004, the Company issued capital notes to its subsidiary with a par value of NIS 37,769,000 and NIS 25,409,000, respectively. The capital notes are unlinked and interest-free, and are repayable at par, upon demand, on January 1, 2005 and only on that date. After balance sheet date, the shareholders of Merkazim decided to extend the repayment date until January 1, 2007.
- c. In 2002, the subsidiary New Horizons issued capital notes with a par value of NIS 119,000 and NIS 1,069,000 to the Company and the minority shareholder in the subsidiary, respectively. The Company and the minority shareholder in the subsidiary are entitled to receive from New Horizons the principal of the note, without interest or linkage, this after a period of not less than one year.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – COMMITMENTS, PLEDGES AND LIMITATIONS IN RESPECT OF LIABILITIES:

- 1) The Company has undertaken to invest in Memadim (see note 4b) approximately 10% of the cost of land and construction of a rental project which is constructed by Memadim on the Carmel shore. The investment was made partly through investment in Memadim (mainly shareholders' loans), and partly by way of a guarantee provided. As of December 31, 2006, the Company had provided guarantees totaling approximately NIS 9 million in respect of bank loans made available to Maimadim. With respect to the assignment of the rights in Maimadim, including the shareholders' loans made to that company, to Industrial Structures, and the removal of the Company from the list of guarantors, see note 4b.
- 2) In December 1996, the subsidiary New Horizons acquired real estate (designated for sale) from a then interested party, which holds 20% of New Horizons' shares. The selling company will be entitled to 90% of the profits from the subsequent sale of the real estate, with the balance accruing to New Horizons. The registration of the real estate in New Horizons' name in the Land Registry has not yet been completed.

On December 4, 2005, the subsidiary was granted an irrevocable option to sell all the rights in the real estate inventory that it owns for a consideration of 17,330 thousands dollar. The option period is limited to June 15, 2006. The subsidiary had not exercised the option granted to it.

- 3) As to the Company's commitment to grant guarantees to BHL, see note 3c(2).
- 4) The Company and a subsidiary receive various services from the shareholders in Ophir, including management services, head office services, bookkeeping and legal services. As to the expenses recorded in respect of such services, see note 10.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 – SHARE CAPITAL:

- a. Composed at December 31, 2006 and 2005 as follows:

	Number of shares		Amount in NIS	
	Authorized	Issued and paid	Authorized	Issued and paid
Ordinary shares of NIS 0.001 par value	160,000	100,000	162	101
Deferred shares of NIS 0.0001 par value*	3	3	0.0003	0.0003

* The deferred shares confer upon their holders the right to receive their par value upon liquidation of the Company.

- b. In February 2005 the Company's board of directors resolved to distribute its shareholders the balance of the shares of Industrial Buildings (amounting to NIS 80,930 thousands) as a dividend in kind. Also, the Company distributed its shareholders a cash dividend of NIS 9,990 thousands.

Also, on October 16, 2005, the Company's board of directors resolved to distribute the shareholders a dividend in the total amount of NIS 82 million. For the purpose of distributing this dividend, the Company requested the Court to approve a deduction of capital for the Company in an amount of up to NIS 64 million. On November 29, 2005, the Court approved the said request.

At a later date, in order to clarify the board of directors' resolution dated October 16, 2005 and the Company's shareholders' resolution dated November 6, 2005 to approve a certain amount out of which the Company would distribute its shareholders a dividend in the total amount of up to NIS 82 million for the years 2005 and 2006 and in light of the Tel-Aviv District Court's resolution to approve a distribution of dividend that does not meet the criteria of the "profit test" as required under Section 303 of the Companies Law, 1999 and also since in December 2005 the owners of the Company resolved that the declaration and distribution of the dividend will take place in 2005 and 2006, the board approved in February 2006 the declaration and distribution of dividend to the shareholders, as follows: a total of NIS 20 million paid in cash on December 28, 2005 and a total of NIS 55 million on January 8, 2006.

- c. On January 17, 2007, the Company's Board of Directors approved the payment of a dividend of approximately NIS 10.3 million. In connection with the payment of this dividend, the Company applied for the consent of the court to a capital reduction of approximately NIS 10 million (under Section 302 of the Companies Law, the Company was, in any event, entitled to pay a dividend out of capital of NIS 0.3 million). On February 27, 2007, the court issued its consent to the reduction of capital.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 – TAXES ON INCOME:

- a. **Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985** (hereafter – the inflationary adjustments law)

Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. The Company and its Israeli subsidiaries are taxed under the inflationary adjustments law.

- b. **Deferred income taxes:**

The composition of the deferred taxes, and the changes therein during the reported years, are as follows:

Depreciable fixed assets
NIS in thousands

Balance at January 1, 2005	(2,550)
Changes in 2005 - amounts carried to income	2,550
Balance at December 31, 2005	-,-

Deferred taxes are presented in the balance sheets as long-term liabilities.

c. Taxes on income included in the income statements:

1) As follows:

	2006	2005	2004
	NIS in thousands		
In respect of the reported year- Deferred, see also b. above		(2,550)	(126)
In respect of previous years - current	(141)	(2,705)	2,500
	(141)	(5,255)	2,374

For tax rates amendment see (e) below.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 – TAXES ON INCOME (continued):

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see (1) above), and the actual tax expense:

	2006	2005	2004
	NIS in thousands		
Income (loss) before taxes on income as reported in the income statements	(299)	(11,420)	16,669
Add (less) - share in profits of associated companies - net	475	(651)	1,150
B a l a n c e - income (loss)	176	(12,071)	17,819
Theoretical tax expense (tax saving)	55	(4,104)	6,237
Increase (decrease) in taxes resulting from permanent differences - the tax effect:			
Disallowable deductions (exempt income)	(28)	(626)	337
Differences for which deferred taxes were not created, net	(30)	748	(870)
Taxes on income subject to different rates - dividends received from other companies			(4,418)
Taxes in respect of previous years	(141)	(2,705)	2,500
Difference between the basis of measurement of income reported for tax purposes and the basis of measurement of income for			

financial reporting purposes - net		1,381	
Sundry - net	3	51	(1,412)
Taxes on income (tax saving) for the reported year	(141)	(5,255)	2,374

d. Tax assessments

The Company has received final assessments through tax year 2001.

Subsidiaries:

Merkazim – final assessments has been received through tax year 2003.

New Horizons –assessments that are considered as final through tax year 2001.

Ophir Financing Ltd. – assessments that are considered as final through tax year 2001.

e. Tax rates

The Company's income in Israel is subject to the regular corporate tax rate; until December 31, 2003, a corporate tax rate of 36% was applied. In July 2004, an Amendment to the Income Tax Ordinance was published, which determined, inter alia, that the rate of corporate tax will be gradually reduced from 36% to 30%, in the following manner: the rate for 2004 will be 35%, in 2005 – 34%, in 2006 – 32%, and in 2007 and thereafter – 30%.

In August 2005, a further amendment (No. 147) was published, which makes a further revision to the corporate tax rates prescribed by Amendment No. 140. As a result of the aforementioned amendments, the corporate tax rates for 2004 and thereafter are as follows: 2004 – 35%, 2005 – 34%, 2006 – 31%, 2007 – 29%, 2008 –27%, 2009 – 26% and for 2010 and thereafter – 25%.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

a. Transactions with related parties:

	2006	2005	2004
	NIS in thousands		
Income (expenses):			
Linkage differences on short- term loans to related party company	(39)	194	
Financial income on loan to shareholders and associated companies	351	1,607	1,371
Management fees			433
General and administrative expenses included - Management fees to shareholder	(634)	(1,000)	

As to other transactions with, and commitments to, interested parties, see note 7.

b. Balances with related parties:

1) Receivables:

	December 31	
	2006	2005
NIS in thousands		
a) Loan to a corporate interested party (1)	967	8,306
b) Long-term receivables - loans to associated companies (2)	4,057	3,056
c) Shareholders - current accounts	7,732	54,952

(1) The loan is linked to the Israeli CPI and bears no interest.

During the reported year, the Company repaid approximately NIS 7.3 million to the interested party.

(2) The loans are linked to the Israeli CPI and bear annual interest at the rate of 12% – 6.5%.

As to current balances with associated and other companies, see note 12a.

2) Long-term liability in respect of acquisition of land – business inventory – is linked to the Israeli CPI and bears no interest.

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OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 – LINKAGE OF MONETARY BALANCES:

a. As follows:

	December 31, 2006		
	Linked to the Israeli CPI	Unlinked	Total
NIS in thousands			
Assets:			
Current assets:			
Cash and cash equivalents		1,325	1,325
Accounts receivable	448	9,364	9,812
Loan to a related party		967	967
Long-term loans to associated companies	4,057		4,057
	4,505	11,656	16,161
Liabilities:			
Current liabilities:			
Accounts payable and accruals		2,298	2,298
Long-term liabilities:			
Capital notes to associated company		151,601	151,601
Capital note to an interested party		1,069	1,069
Acquisition of land - business inventory	11,894		11,894
	11,894	154,968	166,862

b. Data regarding the exchange rate and the Israeli CPI:

	Exchange rate of one dollar	Israeli CPI*
At end of year:		
2006	NIS 4.225	184.87 points
2005	NIS 4.603	185.1 points
2004	NIS 4.308	180.7 points
Increase (decrease) during the year:		
2006	(8.2)%	(0.1)%
2005	6.8%	2.4%
2004	(1.6)%	1.2%

* Based on the index for the month ending on each balance sheet date, on the basis of 1993 average = 100.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:**Balance sheets:**

	December 31	
	2006	2005
	NIS in thousands	
a. Accounts receivable - other:		
Deposits in respect of sale of fixed assets	1,376	10,280
Associated and other companies	448	467
Other	256	315
	<u>2,080</u>	<u>11,062</u>
b. Bank credit:		
Short-term credit and loans		75
Current maturities of long-term loans		3,759
		<u>3,834</u>
c. Accounts payable and accruals:		
Institutions	2,251	2,516
Accrued expenses		404
Other	47	1,325
	<u>2,298</u>	<u>4,245</u>

d. Concentrations of credit risks

The Group's cash and cash equivalents and short-term investments at December 31, 2006 and 2005 are deposited with Israeli banks. The Company is of the opinion that the credit risk in respect of these balances is remote.

e. **Fair value of financial instruments**

The fair value of financial instruments included in the working capital of the Group is usually identical or close to their carrying value. The fair value of long-term loans to associated and other companies and long-term bank loans also approximates their carrying value, since they bear interest at rates close to prevailing market rates. The determination of the fair value of the capital notes to an associated company and a subsidiary and long-term liabilities in respect of acquisition of land – business inventory is not practical.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued) :

f. **Financial expenses (income) – net:**

	2006	2005	2004
	NIS in thousands		
Financial expenses:			
In respect of loan to a related party	39		
In respect of long-term loans	41	3,593	3,692
In respect of short-term bank credit	16	11	
Other	54	250	84
	150	3,854	3,776
Financial income:			
In respect of bank deposits and others	677	1,777	1,354
Financial income on loan to shareholders		600	
In respect of loans to a related party		194	
In respect of short-term loans to associated companies	377	1,007	1,371
Assigned interest and linkage differences and other	18	459	351
	1,072	4,037	3,076
	(922)	(183)	700

NOTE 13 – EFFECT OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL AND IN THE U.S.A.:

a. **General:**

- 1) The Company prepares its financial statements in accordance with Israeli GAAP. As applicable to these financial statements, Israeli GAAP and U.S. of America GAAP vary in certain significant respects, as described below:
- 2) Effect of inflation

In accordance with Israeli GAAP, through December 31, 2003, the Company comprehensively included the effect of the changes in the general purchasing power of Israeli currency in these financial statements, as described in note 1b. In view of the past inflation in Israel, this was considered a more meaningful presentation than financial reporting based on historical cost.

Under US GAAP Israel is not considered to be a highly inflationary country, thus the measurement currency should be in nominal NIS.

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE13 – EFFECT OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL AND IN THE U.S.A.:

3) Investment in marketable securities

In accordance with Israeli GAAP, since the Company's intent was to hold some of the investment as an investment for a long period, it was partly stated at cost, net of impairment for decrease in value, which was other than temporary decline in their value. During 2005 the company sold its investment.

Under U.S. GAAP, this investment was classified as an investment in available for sale and was reported at fair value with unrealized gains and losses, recorded as a separate component of other comprehensive income (loss) in shareholders' equity until realized in 2005.

b. The effect of the material GAAP differences, as described in a. above, on the consolidated financial statements is as follows:

1) Operating results:

	2006	2005	2004
	NIS in thousands		
Net income (losses) as reported in these financial statements according to Israeli GAAP	(157)	(6,165)	14,296
Effect of the treatment of the following items under U.S. GAAP:			
Reversal of the adjustment due to effect of inflation	1,323	76,050	7,631
Reversal of the adjustment due to Marketable securities- available for sale		1,985	(2,256)
Other	(105)	478	107
Net income under U.S. GAAP	1,061	72,348	19,778

OPHIR HOLDINGS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 – EFFECT OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL AND IN THE U.S.A.:

2) Shareholders' equity:

	December 31,	
	2006	2005

	NIS in thousands	
Shareholders' equity, as reported in these financial statements, according to Israeli GAAP	16,040	78,197
Effect of the treatment of the above differences under U.S. GAAP:		
Reversal of the adjustment due effect of inflation, net	(374)	(1,697)
Other	410	218
Shareholders' equity under U.S. GAAP	16,076	76,718

3) The effect of the foregoing GAAP difference on reporting comprehensive income, is as follows:

	2006	2005	2004
	NIS in thousands		
Net income as reconciled to U.S. GAAP, see above	1,061	72,348	19,778
Other comprehensive income - gains not reported (previously reported) in the income statements - unrealized (realized) gains on marketable securities		(61,182)	20,659
Comprehensive income under U.S. GAAP	1,061	11,166	40,437

OPHIRTECH LTD.

(An Israeli Corporation)

2005 ANNUAL REPORT

OPHIRTECH LTD.

2005 ANNUAL REPORT

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REPORT OF INDEPENDENT AUDITORS

To the shareholders of

OPHIRTECH LTD.

We have audited the financial statements of Ophirtech Ltd. (hereafter - the Company): balance sheets as of December 31, 2005 and 2004 and the related statements of income, changes in shareholders' equity and cash flows for the three years ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Boards (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of operations and cash flows of the Company for the three years ended December 31, 2005, in conformity with accounting principles generally accepted in Israel.

As explained in note 1b, the financial statements, as of dates and for reporting periods subsequent to December 31, 2003, are presented in new Israeli shekels, in conformity with accounting standards issued by the Israel Accounting Standards Board. The financial statements as of dates and for reporting periods ended prior to, or on, the above date are presented in values that have been adjusted for the changes in the general purchasing power of the Israeli currency through that date, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 7 to the financial statements.

Tel-Aviv, Israel
March 27, 2006

Kesselman & Kesselman
Certified Public Accountants (Isr.)

OPHIRTECH LTD.

BALANCE SHEETS

	Note	December 31	
		2005	2004
		NIS in thousands (see note 1b)	
Assets			
CURRENT ASSETS:			
Cash		151	811
Government		28	49
T o t a l current assets		179	860
INVESTMENTS IN COMPANIES	1c ; 2	32,809	36,063
		32,988	36,923
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term credit:	6a(2)		
From bank credit	6a		966
From shareholders		4,125	4,267
Loan from a related party	6b	8,306	8,114
Accounts payable and accruals			23
T o t a l current liabilities		12,431	13,370
SHAREHOLDERS' EQUITY	3	20,557	23,553
		32,988	36,923

_____)
 Avi Israel)
) DIRECTORS
)
 _____)
 Shlomo Shalev)

Date of approval of the financial statements: March 27, 2006

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

OPHIRTECH LTD.

STATEMENTS OF OPERATIONS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	NIS in thousands (see note 1b)		
WRITE-DOWN OF INVESTMENTS IN COMPANIES, net	2,814		1,239
GENERAL AND ADMINISTRATIVE EXPENSES (note 6e)	34	3	251
FINANCIAL EXPENSES – net	148	139	416
CAPITAL LOSS ON SALE OF FIXED ASSETS			2
	<u> </u>	<u> </u>	<u> </u>
LOSS FOR THE YEAR	2,996	142	1,908
	<u> </u>	<u> </u>	<u> </u>

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

OPHIRTECH LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Receipts on account of shares to be allotted	Accumulated deficit	Total
	NIS in thousands (see note 1b)			
BALANCE AT JANUARY 1, 2003	1	137,622	(112,019)	25,603
CHANGES DURING 2003 - loss			(1,908)	(1,908)
BALANCE AT DECEMBER 31, 2003	1	137,622	(113,927)	23,695
CHANGES DURING 2004 - loss			(142)	(142)
BALANCE AT DECEMBER 31, 2004	1	137,622	(114,069)	23,553
CHANGES DURING 2005 - loss			(2,996)	(2,996)
BALANCE AT DECEMBER 31, 2005	1	137,622	(117,065)	20,557

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

OPHIRTECH LTD.

STATEMENTS OF CASH FLOWS

	2005	2004	2003
NIS in thousands (see note 1b)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the year	(2,996)	(142)	(1,908)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities*	3,004		714
Net cash provided by (used in) operating activities	8	(142)	(1,194)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from disposal of investments	1,746	1,699	
Investment in companies	(1,306)		(3,089)
Proceeds from sale of fixed assets			70
Net cash provided by (used in) investing activities	440	1,699	(3,019)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term credit loans from shareholders - net	(142)	101	4,166
Increase in short term loan from a related party			191
Short-term bank credit	(966)	(873)	(124)
Net cash provided by (used in) financing activities	(1,108)	(772)	4,233
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(660)	785	20
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	811	26	6
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	151	811	26
* Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Expenses not involving cash flows:			
Depreciation			7
Write-down of investments in companies, net	2,814		1,239
Capital loss on sale of fixed assets			2
Linkage differences of a loan from a related party	192		165
	3,006		1,413
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivables	21		(33)
Decrease in accounts payable and accruals	(23)		(666)
	(2)		(699)
	3,004		714

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows:

a. General:

- 1) Ophirtech Ltd. (the “Company”), invests in start-up companies in various stages of development, from newly established enterprises to companies that have reached advanced development stage.

On March 30, 2000, the Company purchased investments in high-tech companies engaged in various fields of activity (communications, software, security, etc.) from Ophir Holdings Ltd. (“Ophir Holdings”), which at that time was a company under common control, for approximately adjusted NIS 76 million. The difference between the proceeds and the carrying value of those investments on the books of Ophir Holdings was carried to the Company’s accumulated deficit, in accordance with the Israeli Securities (Presentation in Financial Reports of Acts between Body Corporate and its Controlling Member) Regulations, 1996.

- 2) Related parties - as defined in Opinion 29 of the Israeli Institute.
- 3) Principles of accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in Israel (Israeli GAAP). Israeli GAAP vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 7.

b. Financial statements presentation basis:

The company draws up and presents its financial statements in Israeli currency (hereafter - shekels or NIS).

- 1) Transition to nominal financial reporting in 2004

With effect from January 1, 2004, the company has adopted the provisions of Israel Accounting Standard No. 12 – “Discontinuance of Adjusting Financial Statements for Inflation” – of the Israel Accounting Standards Board (hereafter –the IASB) and, pursuant thereto, the company has discontinued, from the aforesaid date, the adjustment of its financial statements for the effects of inflation in Israel.

The amounts adjusted for the effects of inflation in Israel, presented in the financial statements as of December 31, 2003 (hereafter – “the transition date”), were used as the opening balances for the nominal financial reporting in the following periods. Additions made after the transition date have been included in the financial statements at their nominal values.

Accordingly, the amounts reported for 2003, as well as reported amounts for subsequent

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

b. Financial statements presentation basis (continued):

periods, that relate to non-monetary assets including “permanent” investment and equity items, which originate from the period that preceded the transition date, are based on the adjusted-for-inflation data (based on the CPI for December 2003), as previously reported. All the amounts originating from the period after the transition date are included in the financial statements at their nominal values.

Through December 31, 2003, the company prepared its financial statements on the basis of historical cost adjusted for the changes in the general purchasing power of Israeli currency (“NIS”), based upon changes in the consumer price index (hereafter – the CPI), in accordance with pronouncements of the Institute of Certified Public Accountants in Israel (hereafter – the Israeli Institute).

In 2003, the components of the income statements were, for the most part, adjusted as follows: the components relating to transactions carried out during the reported period were adjusted on the basis of the index for the month in which the transaction was carried out, while those relating to non-monetary balance sheet items were adjusted on the same basis as the related balance sheet item. The financing component represents financial income and expenses in real terms and the erosion of balances of monetary items during the year.

- 2) The amounts of non-monetary assets do not necessarily represent realization value or current economic value, but only the reported amounts of such assets, as described in (1) above. In these financial statements, the term “cost” signifies cost in reported amounts.

c. Investments in companies

The investments in the shares of these companies are presented at cost net of write down for decrease in value, which is not of a temporary nature.

The Company performs from time to time fair value evaluations of its investments in start-up and development companies and includes, when necessary, a write-down for decrease in value which is not of a temporary nature, see also d. hereafter.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Impairment of assets:

- 1) The company reviews - at each balance sheet date - whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of fixed assets and identifiable intangibles. When such indicators of impairment are present, the company evaluates whether the carrying value of the asset in the company's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount.

The recoverable value of an asset is determined according to the higher of the net selling price of the asset or its value in use to the company. The value in use is determined according to the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal.

- 2) During 2005, the company has written-down its investments in companies in the total amount of 2,814 thousands NIS (2004- NIS 0; 2003- NIS 1,239 in thousand).

e. Loss per NIS 1 of par value of shares

The financial statements do not include data regarding loss per NIS 1 of par value of shares, since the data would not provide significant additional information to that otherwise provided by the financial statements.

f. Linkage basis

Balances the linkage arrangements in respect of which stipulate linkage to the last index published prior to date of payment are stated on basis of the last index published prior to balance sheet date (the index for November).

g. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

OPHIRTECH LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Data regarding the exchange rate and the Israeli CPI:

	Exchange rate of one U.S. dollar	Israeli CPI*
At end of year:		
2005	NIS 4.603	185.05 points
2004	NIS 4.308	180.74 points
2003	NIS 4.379	178.58 points
Increase (decrease) during:		
2005	6.8%	2.4%
2004	(1.6%)	1.2%
2003	(7.6%)	(1.9%)

* Based on the index for the month ending on each balance sheet date, on the basis of 1993 average = 100.

i. Recently issued accounting pronouncements in Israel:

- 1) In August 2005, the Israel Accounting Standards Board issued Israel Accounting Standard No. 22 – “Financial Instruments: Disclosure and Presentation”, which is based on International Accounting Standard No. 32. This standard prescribes the rules for the presentation of financial instruments and the proper disclosure required therefor. The standard sets forth the rules for classifying financial instruments, the rules for splitting and classifying compound financial instruments and the rules for offsetting financial assets and financial liabilities. The standard also prescribes the rules for classifying interest, dividends, losses and gains relating to financial instruments. This accounting standard applies to financial statements for periods commencing on or after January 1, 2006. The standard is to be applied prospectively and, accordingly, comparative data that are presented in the financial statements for periods commencing from the effective date of the standard will not be re-presented. Financial instruments issued before the standard’s effective date are to be classified and presented in conformity with the provisions of the standard from its effective date. Compound financial instruments (that include both an equity component and a liability component), which were issued in periods prior to the standard’s effective date, and which had not yet been converted or redeemed at that date, are to be classified according to their component parts and are to be presented in conformity with the provisions of the standard, commencing from the effective date of the standard.

When the standard becomes effective, the Israeli institute’s Opinion 48 – “Accounting Treatment of Option Warrants”, and Opinion 53 – “Accounting Treatment of Convertible Liabilities” will be revoked.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued):**i. Recently issued accounting pronouncements in Israel (continued):**

In the Company's opinion, implementation of this standard is not expected to have a material effect on its financial statements in future periods.

- 2) In February 2006, the IASB issued Israel Accounting Standard No. 25 - "Revenue", which is based on International Accounting Standard No. 18. This standard prescribes recognition, measurement, presentation and disclosure criteria for revenues originating from the sale of goods purchased or manufactured by the company, the provision of services, as well as revenues deriving from the use of the company's assets by others (interest income, royalties or dividends).

The principal issue in accounting for revenue is determining the timing of revenue recognition. Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied: (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.

A clarification of said standard was issued by the IASB in February 2006: Clarification No. 8 - "Reporting of Revenue on a Gross or Net Basis". According to the clarification, a company acting as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, will present its revenue on a net basis (as profit or commission). However, a company that acts as a principal supplier and bears the risks and rewards resulting from the transaction will present its revenue on a gross basis, distinguishing the turnover from the related expenses.

Standard 25 shall be applicable to financial statements for periods commencing on or after January 1, 2006. The standard is to be applied prospectively; nevertheless, in accordance with the transitional provisions of the standard, the classification and presentation of revenue on a gross or net basis, as above, shall be applied with retroactive effect, including the restatement of revenues and expenses appearing in the comparative figures in the financial statements for periods commencing on the effective date of the standard.

Until the publication of said standard and the related clarification, there were no accounting pronouncements in Israel concerning revenue, and the accounting treatment of this issue was mostly based on generally accepted accounting practices and foreign accounting pronouncements; nevertheless, as the principles applied by the company do not differ materially from the directives of the standard, its implementation is not expected to have a material effect on the financial statements of the company in future periods.

OPHIRTECH LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 – INVESTMENTS IN COMPANIES:

The composition of the investments is as follows:

	December 31			
		2005	Percentage of ownership/ Control*	2004
	Cost	Book value		Book value
	NIS in thousands		%	NIS in thousands
Pelican Security Ltd. - "Pelican" (a)	8,885	4		930
Expand Networks Ltd. - "Expand" (b)	10,033	10,033	9.3	9,378
Mainsoft Corporation - "Mainsoft" (c)	500	500	1.9	500
Netformx Ltd. - "Netformx" (d)	9,907	2,322	6.2	2,322
StoreAge Networking Technologies Ltd. - "StoreAge" (e)	13,946	13,946	10.9	13,292
Celvibe Ltd. - "Celvibe" (f)	12,278	-,-	13.1	163
Viola Networks Ltd. - "Viola" (g)	14,088	6,004	5.8	6,004
Cerel Ceramic Technologies Ltd. - "Cerel" (h)	4,451	-,-	15.9	3,474
Others (i)	57,708	-,-		-,-
T o t a l	131,796	32,809		36,063

* Ownership/ Control on a full and undiluted basis.

- (a) Pelican is engaged in the development of solutions to the problem of safeguarding information on the Internet against viruses and hackers.

In February 2003, Pelican sold the know-how that it had developed and owned.

Pelican was appointed an outside liquidator who, in 2005, had transferred to the company an aggregate of NIS 626,000 out of the liquidation monies.

- (b) Expand is engaged in the development of technology designed to accelerate communications over diverse network infrastructures (including E1, T1 and frame relay lines) and improve broadband efficiency.

In June 2003, as part of a Capital raise from existing shareholders in Expand, the Company invested an addition amount of \$ 250,000 (NIS 1,084,000) in Expand.

During April 2005, the Company gave a bridging loan to Expand in the amount of \$ 150,000 (NIS 653,000).

- (c) Mainsoft is engaged in the development of software and tools for software developers.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 – INVESTMENTS IN COMPANIES (continued):

- (d) Netformx is engaged in development, marketing and support of software designed for planning, operation and maintenance of computer networks.

The investment in Netformx as of December 31, 2005 is presented net of a provision of NIS 7.6 million for impairment of value.

Netformx is partly held by companies which are related parties.

- (e) StoreAge is engaged in the development and marketing of a software solution and innovative data storage solutions for communications networks (Storage Area Network).

During February 2005, the company gave a bridging loan to Storeage ,in the amount of \$ 150,000 (NIS 653,000).

StoreAge is partly held by a company which is related party.

- (f) Celvibe develops solutions for digital video transmission for Internet broadband networks and mobile phone communications.

In November 2002, Celvibe ceased its operations and entered a winding-up procedure.

On December 7, 2004, an amount of \$ 393,000 was received from Celvibe's liquidator, and On June 30, 2005, an amount of \$ 245,000 was received.

As of December 31, 2005, the balance of the investment is set at zero and the company is not expecting to receive an additional amounts from the liquidation of Celvibe.

- (g) Viola is engaged in the development of a software system to allow quick and uninterrupted identifications of problems and technical difficulties on various communications networks.

In October 2003, the Company invested \$ 150,000 (NIS 668,000) in Viola.

The investment in Viola as of December 31, 2005 is presented net of a provision of NIS 8 million for impairment of value.

- (h) Cerel develops ceramic layering technologies for the passive electronic components market.

In 2002, the company recorded an impairment provision of NIS 980,000 in respect of the investment. In 2005, due to adverse indicators, the company wrote off the balance of its investment in Cerel and recorded an impairment loss of NIS 3.3 million.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 – INVESTMENTS IN COMPANIES (continued):

- (i) Following is a list of the companies in which the Company has invested approximately NIS 58 million. An impairment provision has been made for the full amount invested:

Cipheractive Ltd;
Carmel Biosensors Ltd;
Elpas Electro-Optic Systems Ltd
Romidot Ltd;
RealM Technologies Ltd;
Camelot Information Technologies Ltd;
Interlink Computer Communications Ltd;
Techimage Ltd;
Indox online ltd.
Iradius.Com, Inc;
Trans4u Ltd;
Praxell Inc;
Electrochemical Light Switch Inc;

NOTE 3 – SHAREHOLDERS' EQUITY:

a. Share capital

The share capital as of December 31, 2005 and 2004 is composed of ordinary shares of NIS 1 par value, as follows: authorized - 10,000 shares; issued and paid - 1,000 shares.

b. Receipts on account of shares to be allotted

On November 1, 2000, the Company received a payment on account of shares in the amount of NIS 137,622,000 from its shareholders. The shares have not yet been allotted.

NOTE 4 – TAXES ON INCOME:

- a. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereinafter - the "Inflationary Adjustments Law")

Under the Inflationary Adjustments Law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. The Company is taxed under this law.

b. Taxes rates

The income of the company is taxed at the regular rate. Through December 31, 2003, the corporate tax was 36%. In July 2004, Amendment No. 140 to the Income Tax Ordinance was enacted. One of the provisions of this amendment is that the corporate tax rate is to be gradually reduced from 36% to 30%. In August 2005, a further amendment (No. 147) was published, which makes a further revision to the corporate tax rates prescribed by Amendment No. 140. As a result of the aforementioned amendments, the corporate tax rates for 2004 and thereafter are as follows: 2004 – 35%, 2005 – 34%, 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26% and for 2010 and thereafter – 25%.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 – TAXES ON INCOME (continued):**c. Losses for tax purposes, carried forward to future years**

Carryforward losses aggregate approximately NIS 2 million at December 31, 2005. Under the Inflationary Adjustments Law such carryforward tax losses are linked to the Israeli CPI. No deferred tax asset has been included in respect of such losses. In addition, no deferred tax asset has been included in respect of the impairment provision created for the investments in companies.

d. Tax assessments

The company has received final tax assessments through tax year 2001.

NOTE 5 – “RELATED PARTIES” - TRANSACTIONS AND BALANCES:**a. Transactions:**

	2005	2004	2003
	NIS in thousands		
Financial expenses in respect of short term loan from a company which is a related party	194		165

b. Balances:

	December 31	
	2005	2004
	NIS in thousands	
1) Short-term loan from a company which is a related party	(8,306)	(8,114)
2) Current liabilities - presented in the balance sheets as short-term credit from shareholders'	(4,125)	(4,267)

NOTE 6 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:**Balance sheets:****a. Short-term bank credit:**

- Short-term bank credit was unlinked and beared annual interest rate of 5.46% in 2005 and 6.5% in 2004. During October 2005, the company had settled the bank credit in full.
- In February 2001, the Company and its shareholders gave a commitment to a certain bank that the Company would not make any repayments or settlements to its shareholders on account of shareholders' loans and/or sums received on account of shares up to an amount of approximately adjusted NIS 100 million.

b. Short-term loan from a related party

The loan is linked to the Israeli CPI and bears no interest.

OPHIRTECH LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

c. Concentrations of credit risks

The Company's cash at December 31, 2005 and 2004 were deposited with Israeli banks. The Company is of the opinion that the credit risk in respect of these balances is remote.

d. Fair value of financial instruments

The fair value of the financial instruments included in working capital of the Company is usually identical or close to their carrying value.

Statements of operations -

e. General and administrative expenses:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	NIS in thousands		
Professional fees	24		
Travel abroad	12		
Payroll and related expenses			187
Office rent and maintenance			22
Other	(2)	3	42
	<u>34</u>	<u>3</u>	<u>251</u>

NOTE 7 – EFFECT OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL AND IN THE U.S.A:

a. General:

- 1) The Company prepares its financial statements in accordance with Israeli GAAP. As applicable to these financial statements, Israeli GAAP and U.S. of America GAAP vary in certain significant respects, as described below:
- 2) Effect of inflation

In accordance with Israeli GAAP, through December 31, 2003, the Company comprehensively included the effect of the changes in the general purchasing power of Israeli currency in these financial statements, as described in note 1b. In view of the past inflation in Israel, this was considered a more meaningful presentation than financial reporting based on historical cost.

Under US GAAP Israel is not considered to be a highly inflationary country, thus the measurement currency should be in nominal NIS.

The adjustments to reflect the changes in the general purchasing power of Israeli currency have been reversed in the reconciliation of Israeli GAAP to U.S. GAAP.

OPHIRTECH LTD.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8 – EFFECT OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN ISRAEL AND IN THE U.S.A (continued):

b. The effect of the material GAAP differences, as described in a. above, on the consolidated financial statements is as follows:

1) Operating results:

	2005	2004	2003
	NIS in thousands		
Net losses as reported in these financial statements according to Israeli GAAP	2,996	142	1,908
Effect of the treatment of the following item under U.S. GAAP-			
Reversal of the adjustment due to effect of inflation	(50)	-,	(371)
Net losses under U.S. GAAP	2,946	142	1,537

2) Shareholders' equity:

	December 31,	
	2005	2004
	NIS in thousands	
Shareholders' equity, as reported in these financial statements, according to Israeli GAAP	20,557	23,553
Effect of the treatment of the above differences under U.S. GAAP:		
Reversal of the adjustment due To effect of inflation, net	(2,006)	(2,056)
Transaction with related party	800	800
Shareholders' equity under U.S. GAAP	19,351	22,297

3) The company has no other comprehensive income (loss) components other than net loss for the reported periods.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2007 and 2006, 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, 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 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, 2007 and 2006, 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, 2007, 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 Deloitte Touche Tohmatsu

Haifa, Israel, January 28, 2008

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.

March 5, 2007

Haifa, Israel,

KOST FORER GABBAY &
KASIERER
A Member of Ernst & Young
Global

To the shareholders of

C.D. PACKAGING SYSTEMS LTD.

We have audited the financial statements of C.D. Packaging Systems Ltd. (hereafter – the Company) and the consolidated financial statements of the Company and its consolidated subsidiary: balance sheets as of December 31, 2005 and 2004 and statements of income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Israel and in the standards of the Public Company Accounting Oversight Board (United States), 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 aforementioned financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of operations, changes in shareholders' equity and cash flows – of the Company and consolidated – for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted (“GAAP”) in Israel. Also, in our opinion, except for failure to meet the requirements of the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in the Financial Statements), 1996, as explained in note 11, and except for the exclusion of certain specifications, as explained in that note, the abovementioned financial statements have been prepared in accordance with the Securities (Preparation of Annual Financial Statements) Regulations, 1993.

As explained in note 1b, the financial statements, as of dates and for reporting periods subsequent to December 31, 2003, are presented in new Israeli shekels, in conformity with accounting standards issued by the Israel Accounting Standards Board. The financial statements as of dates and for reporting periods ended prior to, or on, the above date are presented in values that have been adjusted for the changes in the general purchasing power of the Israeli currency through that date, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Haifa,
March 6, 2006

/s/ KESSELMAN & KESSELMAN CPAs (ISR)
A member of PricewaterhouseCoopers International Limited

To the board of directors and
supervisory board of
Eurochem Maritime B.V.

AUDITORS' REPORT

We have audited the financial statements for consolidation purposes 2007 of Eurochem Maritime B.V., Amsterdam, which comprise the balance sheet as at 31 December, 2007 and 2006, the profit and loss account, the statement of changes in shareholder's equity and the statements of cash flows for each of the two years in the period ended December 31, 2007 and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements for consolidation purposes in accordance with international accepted accounting principles and 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 afore mentioned financial statements based on our audit. We conducted our audit in accordance with Dutch law and the Public Company Accounting Oversight Board (PCOAB, United States of America). Dutch Law as well as PCAOB requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the afore mentioned financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

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 referred to give a true and fair view of the financial position of Eurochem Maritime B.V. as at 31 December, 2007 and 2006 and of its results, statement of changes in shareholder's equity and statement of cash flows for each of the two years in the period ended December 31, 2007 in accordance with international accepted accounting principles and accounting principles generally accepted in the Netherlands.

Rotterdam, 27 February 2008

MAZARS PAARDEKOOPEL HOFFMAN ACCOUNTANTS N.V.

A.G. de Nijs RA

To the board of directors of
Chem-Tankers C.V.

AUDITORS' REPORT

We have audited the financial statements for consolidation purposes 2007 of Chem-Tankers C.V., Maarssen, which comprise the balance sheet as at 31 December, 2007 and 2006, the profit and loss account and the statements of cash flows for each of the two years in the period ended December 31, 2007 and the notes.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements for consolidation purposes in accordance with international accepted accounting principles and 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 afore mentioned financial statements based on our audit. We conducted our audit in accordance with Dutch law and the Public Company Accounting Oversight Board (PCOAB, United States of America). Dutch Law as well as PCAOB requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the afore mentioned financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

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 referred to give a true and fair view of the financial position of Chem-Tankers C.V. as at 31 December, 2007 and 2006 and of its results and statement of cash flows for each of the two years in the period ended December 31, 2007 in accordance with international accepted accounting principles and accounting principles generally accepted in the Netherlands.

Rotterdam, 25 February 2008

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.

A.G. de Nijs RA

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

SHARE PURCHASE AGREEMENT

Made and signed as of the 20th day of November, 2007

By and Between

Netherlands Industrial Chemical Enterprises B.V., a private company with limited liability under the laws of the Netherlands, with corporate seat in Amsterdam, and address at 3606 AK Maarssen, Planetenbaan 108, ("**N.I.C.E.**"), on the one part

– And –

Merhav Ampal Energy Ltd., a company, duly incorporated and validly existing under the laws of the State of Israel, having its registered office at 111 Arlozorov St. Tel-Aviv, Israel, or any other company fully owned by Ampal-American Israel Corporation ("**Ampal**"), on the second part.

Whereas N.I.C.E. is the controlling shareholder of Gadot Chemical Tankers And Terminals Ltd., Reg. Number 520037037 ("**Gadot**"), a public company which shares are traded in the Tel-Aviv Stock Exchange ("**TASE**"); and

Whereas Ampal offered to N.I.C.E. to purchase from N.I.C.E. its entire holdings of Gadot's securities, in an 'as-is' transaction outside the TASE, and N.I.C.E. has accepted such offer, all subject to and in accordance with the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties have declared, stipulated and agreed as follows:

1. Definitions

In this Agreement and in addition to the terms defined in the preamble to this Agreement or elsewhere in this Agreement, the following terms shall have the meanings ascribed to them, as follows:

- 1.1 "**Affiliate**" shall mean (a) with respect to any Person (other than an individual), a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise and (b) with respect to any individual, any relative or spouse of such Person, or any relative of such spouse, who has the same home as such Person.
- 1.2 "**Bank Hapoalim**" shall mean Bank Hapoalim BM Ltd.
- 1.3 "**Bank Hapoalim Pledge**" shall mean a pledge in favor of Bank Hapoalim on the Pledged Shares.
- 1.4 "**Bank Hapoalim Trust Company**" shall mean Poalim Trust Services Ltd.
- 1.5 "**Business Day**" shall mean a day at which banks are open for business in Israel.
- 1.6 "**Closing**" shall mean as defined in Section 6 below.
- 1.7 "**Consideration Amount**" shall mean an amount of 348,147,000 NIS (three hundred and forty eight million and one hundred forty seven thousand New Israeli Shekels).
- 1.8 "**Governing Documents**" shall mean certificate of incorporation, articles of association and memorandum of association (if applicable), statutes and by-laws.
- 1.9 "**Knowledge**" - actual knowledge based on written information received and without making an inquiry.
- 1.10 "**Options**" shall mean Options (Series 1) of Gadot (TASE Security number 1088939).
- 1.11 "**Ordinary Shares**" shall mean Ordinary Shares of NIS 0.1 Par Value of Gadot (TASE Security number 1088921).
- 1.12 "**Person**" means any individual, corporation, partnership, association, trust, unincorporated organization, limited liability company, other entity or group.

- 1.13 “ **Pledge** ” shall mean pledge, levy, charge, encumbrance, lien, security interest, first refusal right or any other third party right.
- 1.14 “ **Pledged Shares** ” shall mean 37,989,500 (thirty seven million, nine hundred eighty nine thousand and five hundred) Ordinary Shares, pledged under the Bank Hapoalim Pledge and registered in the name of Bank Hapoalim Trust Company.
- 1.15 “ **Purchased Securities** ” shall mean 43,275,025 (forty three million, two hundred seventy five thousand and twenty five) Ordinary Shares, comprised of 39,174,429 (thirty nine million, one hundred seventy four thousand and four hundred twenty nine) Ordinary Shares, being the entire Ordinary Shares held by N.I.C.E. at the date hereof plus 4,100,596 (four million one hundred thousand and five hundred ninety six) Ordinary Shares to be obtained by N.I.C.E. from the exercise of the Options pursuant to Section 2.1.3 below.
- 1.16 “ **Real Estate Pledge** ” shall mean a pledge on the real estate known as block 7104, parcel 90/42 in favor of Israel Discount Bank Ltd (“ **Discount Bank** ”), as shown in the extract from the Land Registration Office (“TABO”), and the pledge number 2 on Euro-Gama Properties Ltd., as shown in the extract from the Companies Registrar, both attached as **Annexes 1.16(1) and 1.16(2)** respectively.

2. **Representations and Warranties of the Parties**

- 2.1. N.I.C.E. hereby represents, warrants and undertakes towards Ampal that as at the date hereof and the Closing hereunder:
- 2.1.1. N.I.C.E. is a company duly organized and validly existing under the laws of the Netherlands, and has full power and authority to enter into this Agreement and to carry out its obligations thereunder, and has taken all corporate or other action necessary for the authorization, execution, delivery, and performance of its obligations under this Agreement.
- 2.1.2. Neither the execution and delivery of this Agreement, nor compliance by N.I.C.E. with the terms and provisions hereof, conflicts or will conflict with, or results or will result in a breach or violation of, any of the terms, conditions and provisions of: (i) N.I.C.E.’s Governing Documents, (ii) any judgment, order, injunction, decree, or ruling of any court or governmental authority, to which N.I.C.E. is subject, (iii) any agreement, contract or commitment to which N.I.C.E., or to the Knowledge of N.I.C.E.- Gadot, is a party or by which they are bound, including, but not limited to any material note, bond, mortgage, debenture, deed of trust, license or lease, or (iv) applicable law.
- 2.1.3. At the date hereof N.I.C.E. holds 39,174,429 Ordinary Shares and 4,100,596 Options, out of which the Pledged Shares are registered in the name of Bank Hapoalim Trust Company as security for payment of its debts to Bank Hapoalim. Until Closing hereunder N.I.C.E. shall exercise all Options. Certified copies of the share certificates, as well as Gadot’s shareholders’ register and options register, will be provided to Ampal as soon as possible following signature hereof and not later than 5 (five) Business days before Closing.
- 2.1.4. At Closing, the Purchased Securities, shall represent approximately 63.66% of the issued share capital of Gadot (on fully diluted basis), shall be the entire holdings of N.I.C.E. in Gadot, and except for the Purchased Securities (and as set forth in Section 10.1 below) N.I.C.E. does not and will not hold any other securities in Gadot or in any Affiliate thereof.
- 2.1.5. N.I.C.E. has sole legal and beneficial title to the Purchased Securities and except for the Bank Hapoalim Pledge and the registration of the Pledged Shares in the name of Bank Hapoalim Trust Company, as specified in Section 2.1.3 above, they are free and clear from any Pledge, and at the Closing, they shall be transferred to Ampal, free and clear of any Pledge.
- 2.1.6. All of the Purchased Securities have been duly authorized, validly issued are fully paid up to the date of this Agreement, nonassessable and free of preemptive rights and rights of first refusal, offer or similar rights.
- 2.1.7. Except for the need to obtain the Approvals as set forth in Section 5 below, no consent, approval, permit or, action by any governmental authority on the part of N.I.C.E. or to the Knowledge of NICE Gadot is required that has not been, or will not have been, obtained by N.I.C.E. or Gadot prior to the Closing in connection with the sale of the Purchased Securities hereunder.
- 2.1.8. N.I.C.E. is not aware that Gadot has received any communication from the Israeli Securities Authority (“ **ISA** ”) or TASE alleging non compliance by Gadot with its obligations as a company whose shares are traded on the TASE.
- 2.1.9. It has not been brought to N.I.C.E.’s attention that (i) the quarterly financial reports of Gadot for the period of 6 months ending on June 30th, 2007, and the annual financial reports of Gadot for December 31st, 2006 are incorrect in any material respect; or that (ii) any periodic reports or immediate notices filed by Gadot with the ISA or with TASE contains any “misleading item” (as such term is defined in the Israeli Securities Law of 1968).

2.1.10. N.I.C.E. requested Gadot to provide to Ampal all documents and information relating to Gadot and to the Purchased Securities.

2.1.11. N.I.C.E. is not aware of any facts or circumstances, which would cause the representations and warranties of N.I.C.E. contained in this Agreement to be untrue.

2.2. Ampal hereby represents and undertakes towards N.I.C.E. as follows:

2.2.1. Ampal has full power and authority to enter into this Agreement and to carry out its respective obligations thereunder, and has taken all corporate or other action necessary for the authorization, execution, delivery, and performance of its obligations under this Agreement.

2.2.2. Neither the execution and delivery of this Agreement, nor compliance by Ampal with the terms and provisions hereof, will conflict with, or result in a breach or violation of, any of the terms, conditions and provisions of: (i) Ampal's Governing Documents, (ii) any judgment, order, injunction, decree, or ruling of any court or governmental authority, to which Ampal is subject, (iii) any agreement, contract or commitment to which Ampal is a party or by which it is bound, or (iv) applicable law.

2.2.3. As at the Closing, Ampal shall have sufficient cash on hand to pay all amounts which are payable by it to N.I.C.E. under this Agreement.

2.2.4. Except for the need to obtain the Approvals as set forth in Section 5 below, no consent, approval, permit or, action by any governmental authority on the part of Ampal is required that has not been, or will not have been, obtained by Ampal prior to the Closing in connection with the valid execution, delivery and performance of this Agreement and the purchase of the Purchased Securities hereunder.

2.2.5. Ampal has conducted extensive financial, legal and business due diligence of Gadot, and is purchasing the Purchased Securities 'as is' and with no representation or warranty from N.I.C.E. of any kind or nature in relation to Gadot, except as provided herein; and by its signature hereunder and subject to the correctness of N.I.C.E.'s representations and warranties set forth in Section 2.1 above, Ampal irrevocably and unconditionally waives any and all demands, contents or claims against N.I.C.E. in relation to Gadot and the Purchased Securities.

2.3. The representations and warranties contained in Sections 2.1.7. – 2.1.11 (inclusive) herein shall survive the Closing for a period of 3 months after the filing of the audited annual financial reports for December 31st, 2008.

3. Certain Covenants

During the period between the execution of this Agreement and the Closing:

3.1. Covenants of N.I.C.E.

N.I.C.E. shall:

3.1.1. not take any action that would cause any of the representations and warranties made by it in this Agreement to fail to be true and correct on and as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of the Closing Date;

3.1.2. request Gadot to update the representatives of Ampal on a regular basis regarding material operational developments and the ongoing operations and activities of Gadot and any Affiliate thereof, including but not limited to any litigation, relating to or involving or otherwise affecting Gadot or any such Affiliate and to the VLS Transaction.

3.1.3. vote all of its shares of Gadot to procure that Gadot and any Affiliate thereof continues to conduct its business and operations in the ordinary course and in accordance with past practice;

3.1.4. vote all of its shares of Gadot against: (i) disposal of or agreement for the disposal of (or the granting of any option in respect of) any material part of its assets or create any Pledge on any material part of Gadot's and any of its Affiliates' assets; except in the ordinary course of business as such business is being carried out as at the date hereof and as required to meet existing obligations (ii) the issuance or sale of any shares, stock, options or other securities or the seeking, negotiation or agreement to any investment, direct or indirect, in the equity of Gadot and of any Affiliate thereof other than in the ordinary course of business and as required to meet existing obligations; (iii) the entering into any financing agreement or the incurrence of any material indebtedness other than in the ordinary course of business and as required to meet existing obligations including as required for the purposes of carrying out the VLS Transaction and the exercise of options for acquiring new chemical tankers; (iv) the entering into (or the amendment or the termination of material terms

of any existing) agreement with a related party; (v) the amendment of the Gadot or any of its Affiliates' Governing Documents (except as required in relation to the management change in BAX); (vi) the payment of any dividend or any other kind of distribution to shareholders; (vii) the payment of any material fee, bonus, stipend, or other special compensation to any party other than in the ordinary course of business and as required to meet existing obligations; (viii) the merger with or into another entity other than the VLS transaction; (ix) the winding-up or liquidation of Gadot or any Affiliate thereof or (x) an agreement or undertaking to do any of the above;

- 3.1.5. not sell, transfer, assign or otherwise dispose of any interest in any of the Purchased Securities or grant any option over or create or allow to exist any Pledge over the Purchased Securities or any of them, other than as contemplated in Section 2.1.3 above;
- 3.1.6. take all necessary actions required to obtain no later than three (3) Business Days before the Closing, Bank Hapoalim's approval that against payment to Bank Hapoalim of the amount stated in such notice it shall release the Bank Hapoalim Pledge (" **Bank Hapoalim Release Notice** ").
- 3.1.7. take all necessary actions required to obtain no later than three (3) Business Days before the Closing, Discount Bank approval that it shall release the Real Estate Pledge (" **Real Estate Pledge Release Notice** ").

3.2. Covenants of Each Party.

- 3.2.1. The parties hereto shall use their reasonable best efforts to cause the transactions contemplated by this Agreement to be consummated as soon as possible following signature hereof. Each party hereto, at the reasonable request of the other party hereto, shall execute and deliver such other instruments and do and perform such other acts and things as may be necessary for effecting completely the consummation of this Agreement and the transactions contemplated hereby.
- 3.2.2. None of the parties hereto will take any action, which results in any of the representations and warranties made by such party pursuant to Section 2.1 and 2.2 hereinabove, as the case may be, becoming untrue or inaccurate in any material respect.

3.3. Notification of Certain Matters.

- 3.3.1. N.I.C.E. shall give prompt notice to Ampal, and Ampal shall give prompt notice to N.I.C.E., of the occurrence or non-occurrence of any event which results in any representation and warranty contained in this Agreement being untrue or inaccurate in any material respect and any failure of N.I.C.E. or Ampal, as the case may be, to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 3.3.1 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.
- 3.3.2. N.I.C.E. shall give prompt notice to Ampal and Ampal shall give prompt notice to N.I.C.E. of (i) any notice or other communication from any person alleging that the approval or consent of such person or Governmental Authority is or may be required in connection with this Agreement or the transactions contemplated hereby, (ii) any notice or other communication from any Governmental Authority in connection with this Agreement or the transactions contemplated hereby, (iii) any litigation, relating to or involving or otherwise affecting such party that relates to this Agreement, or (iv) any fact, event, change, development, circumstance, condition or effect that is likely to delay or impede the ability of such party to consummate the transactions contemplated by this Agreement; provided, however, that the delivery of any notice pursuant to this Section 3.3.2 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.
- 3.3.3. All undertakings of N.I.C.E. and Ampal under Sections 3.3.1-3.3.2 above are limited to events, facts, circumstances, etc. which are Known to them and which are not generally known as part of the public domain.

4. The Transaction.

- 4.1. Subject to the terms and conditions set forth in this Agreement and against payment of the Consideration Amount, as at the Closing hereunder N.I.C.E. shall sell and transfer to Ampal, and Ampal shall purchase and acquire from N.I.C.E., the Purchased Securities free any clear of any Pledge, in a transaction outside the TASE.

5. Conditions Precedent

- 5.1. The obligations of the parties to consummate the transactions contemplated under this Agreement, are subject to the fulfillment at or before the Closing of the following conditions precedent:
 - 5.1.1. Obtaining the approval, to the extent required, of the Restrictive Trade Practices Commissioner for the transactions

contemplated hereunder.

5.1.2. Obtaining the approval of Bank Hapoalim for the change of control in Gadot pursuant to this Agreement.

(The approvals specified in Sections 5.1.1-5.1.2 shall be collectively and separately referred to as the “ **Approvals** ”).

5.2. The parties shall cooperate and employ their best efforts in obtaining the Approvals as soon as possible following signature hereunder, and with respect to the approval specified in Section 5.1.1, the parties shall cooperate and employ their best efforts in order to submit a request therefor within 7 days of the signature hereunder.

5.3. If, in spite of the parties’ best efforts under Section 5.2 above, the Approvals shall not be obtained within 60 days from the date of signature hereof, then in such event such period shall be extended automatically by additional 30 days. If, in spite of the parties’ best efforts under Section 5.2 above, the Approvals shall not be obtained within such additional 30 days, or a later date as may be agreed in good faith between the parties, this Agreement shall terminate and become null and void.

6. Closing

The Closing of the transactions contemplated under this Agreement shall take place at the offices of Yossi Avraham, Arad & Co. five (5) Business Days after the date in which all Approvals shall have been obtained (the “ **Closing** ” and the “ **Closing Date** ”, respectively). At the Closing the parties or their authorized representatives shall perform the following actions, all of which shall be deemed to have occurred simultaneously, and no action shall be deemed to have been completed and no document or certificate shall be deemed to have been delivered, until all actions are completed and all documents and certificates delivered.

6.1. N.I.C.E. shall sell and transfer to Ampal the Purchased Securities, in a transaction outside the TASE, in the manner further contemplated in this section below.

6.2. Ampal shall transfer to the bank account of N.I.C.E., designated by N.I.C.E. in writing prior to Closing, the Consideration Amount less the amount referred to in Section 6.5 below which will be transferred to N.I.C.E.’s account at Bank Hapoalim designated in Bank Hapoalim’s Release Notice.

6.3. Bank Hapoalim Trust Company and Ampal will sign a Share Transfer Deed, in the form attached hereto as Annex 6.3, for the transfer of the Pledged Shares from the name of Bank Hapoalim Trust Company to Ampal.

6.4. Bank Hapoalim will deliver to Ampal a signed notice to the Registrar of Liens (Jerusalem office) with respect to the cancellation of the Bank Hapoalim Pledge.

6.5. Ampal shall transfer to the bank account of N.I.C.E., designated by N.I.C.E. in writing prior to Closing, the amount referred to in Bank Hapoalim’s Release Notice.

6.6. N.I.C.E. and Ampal will sign a Share Transfer Deed, in the form attached hereto as Annex 6.6, for the transfer of all the Purchased Securities less the Pledged Shares from the name of N.I.C.E. to Ampal.

6.7. N.I.C.E. will deliver to Ampal Real Estate Pledge cancellation Deeds/Notices, signed by Discount Bank addressed to the Land Registration Office (“TABO”) and to the Companies Registrar for the purpose of cancellation of the Real Estate Pledge.

6.8. N.I.C.E. will deliver to Ampal (1) a confirmation from Gadot’s secretary with respect to the cancellation of the registration of the Purchased Securities in the name of Bank Hapoalim Trust Company and N.I.C.E. in Gadot’s shareholders’ register and the cancellation of the share certificates in the name of Bank Hapoalim Trust Company and N.I.C.E. with respect to the Purchased Securities, and (2) a new share certificate in the name of Ampal evidencing the purchase herein of the Purchased Securities, and (3) an evidence of the registration of the Purchased Securities in the name of Ampal in Gadot’s shareholders’ register.

6.9. N.I.C.E. shall cause Gadot to convene a meeting of the Board of Directors of Gadot (“ **Board** ”), procure that a legal quorum is present, and deliver to Ampal and Gadot the following documents:

6.9.1. resignation notices of 3 members from the Board effective immediately.

6.9.2. a resolution of the Board to appoint Mr. Yosef A. Maiman, Dr. Yossef Yerushalmi and Mrs. Irit Eluz, , as new members of the Board (“ **Ampal Directors** ”), such appointment effective immediately.

6.9.3. resignation notices of the members of the Board, except for Messrs. Moshe Johananoff and Yehuda Cohen, the external directors and the Ampal Directors, effective immediately.

6.9.4. a resolution of the Board to appoint Messrs. Leo Malamud and Ofer Gilboa, as new members of the Board, such appointment effective immediately.

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- 6.10. The Parties shall deliver to each other the Approvals (as defined hereinabove), to the extent required by them to obtain.
- 6.11. Each party shall deliver to the other party a certified copy of a resolution of its board of directors, approving the consummation of the transactions contemplated hereby including, without limitation (in the case of N.I.C.E.), the transfer of the ownership in the Purchased Securities to Ampal.

7. **Post Closing Covenants**

- 7.1. Subject to the provisions of the law, Ampal shall use all its voting power as controlling shareholder of Gadot to ensure that:
- 7.1.1. Gadot shall continue to maintain proper Directors and Officers insurance (“**D&O Insurance**”) covering the liability of all directors and officers of Gadot, including without limitation, those designated by N.I.C.E, as immediately prior to the Closing, until the expiry of the limitation period applying to their duties and liabilities associated with their positions as directors or officers of Gadot, as the case may be, in amounts and at a scope not inferior to that prevailing under the existing D&O Insurance prior to Closing.
- 7.1.2. Gadot shall respect all of its obligations towards all directors and officers of Gadot, including without limitation, those designated by N.I.C.E, as immediately prior to the Closing, under any indemnity undertaking or agreement with such directors or officers, in amounts and at a scope not inferior to that prevailing under the existing indemnity undertaking or agreement prior to Closing.
- 7.2. **Indemnification**.
- 7.2.1. Each party shall indemnify (“**Indemnifying Party**”) the other party, its Affiliates and each of their respective officers, directors, employees, stockholders, agents and representatives (collectively, the “**Indemnitees**”), upon first written demand by each of the Indemnitees against and hold them harmless from any loss, liability, deficiency, damage, cost, or expense, or actions in respect thereof (including reasonable legal fees and expenses) (“**Loss**”) suffered or incurred by any such indemnified party (“**Indemnified Party**”) arising from, in connection with, relating to or otherwise in respect of (i) any breach of any representation and warranty made by the Indemnifying Party in this Agreement or; (ii) any breach of any covenant of the Indemnifying Party in this Agreement.

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- 7.2.2. **Other Claims**. In the event any Indemnified Party should have a claim against any Indemnifying Party under Section 7.2.1 being asserted against or sought to be collected from such Indemnified Party, the Indemnified Party shall deliver notice of such claim to the Indemnifying Party with reasonable promptness. The failure by any Indemnified Party so to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability except to the extent the Indemnifying Party has proved that it has been prejudiced as a result of such failure in which case the amount of the indemnification due from the Indemnifying Party shall be reduced by the amount of direct damages proved by the Indemnifying Party. If the Indemnifying Party does not notify the Indemnified Party within 30 Business Days following its receipt of such notice that the Indemnifying Party disputes its liability to the Indemnified Party under Section 7.2.1, such claim specified by the Indemnified Party in such notice shall be conclusively deemed a liability of the Indemnifying Party under Section 7.2.1 and the Indemnifying Party shall pay the amount of such liability to the Indemnified Party on demand or, in the case of any notice in which the amount of the Loss (or any portion thereof) is estimated, on such later date when the amount of such Loss (or such portion thereof) becomes finally determined. If the Indemnifying Party has timely disputed its liability with respect to such claim, as provided above, the Indemnifying Party and the Indemnified Party shall resolve such dispute as follows: (i) first, the parties shall negotiate in good faith for a period of up to 15 Business Days to resolve such dispute, then (ii) if the Indemnifying Party and the Indemnified Party are unable to reach an agreement, they shall resolve such dispute in accordance with Section 10.4 hereunder.

8. **Confidentiality and Stock Exchange Reports**

Without derogating of Ampal’s confidentiality undertakings towards N.I.C.E. and Gadot pursuant to the Non Disclosure Agreement signed between the parties dated September 24, 2007 (“**NDA**”), following the execution of this Agreement and prior to the Closing, neither party shall provide any information to the press, make a public disclosure or in any other way provide information to third parties about this Agreement without the prior written consent of the other party, except in so far as such disclosure is required by law or by TASE or other stock exchange or other applicable rules, in which case the party required to disclose such information is obliged to consult in advance with the other party and consult on the text of the public disclosure.

9. **Termination**

This Agreement may be terminated at any time prior to the Closing:

- 9.1. by the mutual written consent of Ampal, on the one hand, and N.I.C.E., on the other hand;

- 9.2. by either Ampal, or N.I.C.E., without liability on the part of the terminating party for terminating this Agreement (provided that the terminating party is not otherwise in default or in breach of this Agreement), if N.I.C.E. or Ampal, as the case may be, shall (i) fail to perform in any material respect its agreements contained herein required to be performed prior to the Closing Date, or (ii) materially breach any of its representations and warranties or covenants contained herein, and such failure or breach (under sub sections (i) or (ii) above) is not cured within 20 Business Days of delivery of written notice thereof.

Termination of this Agreement pursuant to this Section 9 shall terminate all obligations of the parties hereunder, except for the obligations under Section 10.3, 10.4 and 10.10; provided that termination pursuant to Section 9.2 shall not relieve the defaulting or breaching party from any liability to the other party hereto.

10. Miscellaneous

- 10.1. Gadot Storage & Handling Ltd. As at the closing hereunder, and without additional consideration to the Consideration paid hereunder, N.I.C.E. shall transfer to Ampal, and Ampal shall acquire from N.I.C.E., all of N.I.C.E.'s holdings in Gadot Storage & Handling Ltd. (namely 1,000 ordinary shares of NIS 1.0 par value each) free and clear of any Pledge, by the parties executing a share transfer deed in the form attached as Annex 10.1 hereto.
- 10.2. Additional Actions. Without derogating from the other parties' obligations under this Agreement, each of the parties undertakes to sign all documents and carry out all actions which signing or execution by the parties are required to give effect to the provisions of this Agreement and implement them.
- 10.3. Taxes and expenses. Except as otherwise expressly provided in this Agreement, whether or not the transactions contemplated hereby are consummated, each of the parties shall bear and pay the taxes and levies imposed on it (if at all) under any law in relation with this Agreement and the transactions contemplated therein. Transfer tax payable (if at all) in respect of the transfer of the Purchased Securities hereunder, under the Netherlands jurisdiction, shall be borne and paid by N.I.C.E. It is clarified that payment of the Consideration Amount is subject to withholding tax obligations Ampal is subject to according to Israeli laws and regulations, unless and to the extent that N.I.C.E shall provide Ampal with an exemption from such withholding tax obligation.
- 10.4. Law & Jurisdiction. This Agreement will be governed by the laws of the State of Israel. The competent courts of Tel-Aviv, Israel shall jurisdiction in any matter pertaining to this Agreement.
- 10.5. Entire Agreement. This Agreement, including the all annexes attached hereto constitutes the entire understanding of the parties and except for the NDA supersedes all oral or written representations or agreements, privileges or understandings between the parties.
- 10.6. Amendments. No modification or amendment of this Agreement may be made except in a written instrument duly signed by all parties.
- 10.7. Waivers. A waiver by a party of any of its rights under this Agreement shall not be effective unless made by a written instrument duly signed by such party, and shall not be deemed a waiver of any other right hereunder.

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- 10.8. Headings. The headings of several sections in this Agreement are inserted only as a matter of convenience, and shall not be taken into consideration in the interpretation of this Agreement.
- 10.9. Preamble and Annexes. The preamble and annexes to this Agreement shall constitute an integral part thereof.
- 10.10. Notices. Any notice sent by one party to the others to the addresses set forth in the preamble to this Agreement shall be considered as having reached its destination, if it was delivered by hand, at the time of its delivery; if it was sent by registered mail, within 3 Business Days from the time it was so dispatched; and if it was sent by facsimile, within 2 Business Days from the receipt of the confirmation of proper transmission of the notice. Any notice to Ampal shall be sent with a copy to Eldad Firon, Adv. and/or Raphael Melman, Adv., M. Firon & Co., 16 Abba Hillel Silver Rd., Ramat-Gan 52506 Fax (+972)-3-7540011 and any notice to N.I.C.E. shall be sent with a copy to Ehud Arad, Adv., Yossi Avraham, Arad & Co., 3 Daniel Frisch St., Tel-Aviv 64731 Fax. (+972)-3-6963801).

[SIGNATURES ARE ON THE FOLLOWING PAGE]

In witness whereof the parties have set their signatures hereunto:

Netherlands Industrial Chemical Enterprises B.V.

By: Mr. Moshe Johannanof
under specific proxy dated
October 25, 2007

I, the undersigned, Ehud Arad, Adv., as legal counsel to Netherlands Industrial Chemical Enterprises B.V., a private company with limited liability under the laws of Netherlands with corporate seat in Amsterdam (“**N.I.C.E.**”), hereby confirm that N.I.C.E. signed upon this Agreement through its authorized signatory Mr. Moshe Johannanof, according to a resolution duly adopted by N.I.C.E. and to its constituting documents and I further confirm that the above signature is binding upon N.I.C.E. for every intent and purpose.

Ehud Arad, Adv.

Merhav Ampal Energy Ltd.

By: Yosef A. Maiman & Irit Eluz

I, the undersigned, Eldad Firon, Adv., as legal counsel to Merhav Ampal Energy Ltd., co. no. 513754077 (“**Ampal**”), hereby confirm that Ampal signed upon this Agreement through its authorized signatories Mr. Yosef A. Maiman and Mrs. Irit Eluz, according to a resolution duly adopted by Ampal and to its constituting documents and I further confirm that the above signatures are binding upon Ampal for every intent and purpose.

Eldad Firon, Adv.

Merhav Ampal Energy Ltd
Company No. 51-375407-7

Date: December 3, 2007

Messrs
Discount Bank Ltd

Dear Sirs,

Re: Irrevocable covenant

Whereas we, the undersigned, Merhav Ampal Energy Ltd, Company No. 51-375407-7 (hereafter: "the Company") have received and/or are to receive from you, Israel Discount Bank Ltd (hereafter: "the Bank"), loans, credit, guarantees and sundry banking services (hereafter: "the credits") and we accordingly owe and/or shall owe the Bank debts, obligations, charges and various amounts and all in accordance with the Bank's records as may be valid from time to time and at all times (hereafter: "the debts"), and in connection therewith the Company has signed and/or is to sign, has delivered and/or is to deliver to the Bank various instruments in connection with the credits and/or the debts including and inter alia forms, confirmations, letters of conditions, security and bonds, insurance rights and so forth, in accordance with the Bank's records as may be from time to time and at all times; accordingly, as security and bond additional to the credits and the debts we do hereby irrevocably warrant, consent, attest, confirm and covenant vis-à-vis the Bank that throughout the entire term until clearance and repayment of all the debts to the Bank in connection with the credits (hereafter: "the credit term"), we shall act, shall execute, shall cause to be executed and to be fulfilled at our sole expense and on our sole responsibility, to the full and complete satisfaction of the Bank, all of the conditions, the stipulations, the acts and matters set forth below:

1. Definitions –

EBITDA	Earnings Before Interest Taxes Depreciation and Amortization. The aggregate amount of operating profit from routine activity according to the latest financial statements for the four successive calendar quarters ending on the date of the last financial statements, before financing expenses (interest, indexation differences, exchange rate and foreign currency differences and commissions) and taxes together with depreciation expenses in respect of fixed assets and write down of intangible assets.
Means of control and/or control	As per the definition thereof in the Securities Law 5728-1968 and any term in the said definitions shall be construed in accordance with the aforesaid Law.
Shareholders or party at interest or owner	Any shareholder in the Company and/or office holder in the Company and/or party at interest in the Company, either directly or indirectly as is at present and/or as shall be from time to time and at any time.
Gadot	Gadot Chemical Tankers & Terminals Ltd Company No. 52-003703-7

Dollar	Dollar of the United States of America
Discount Trust	Discount Trust Ltd
TASE	The Tel-Aviv Stock Exchange Ltd
The financial statements	The annual financial statements of the Company and/or Ampal American and/or Gadot severally (hereafter: "solo financial report") and/or jointly and in consolidation with all the subsidiaries and investee companies by the Company and/or Gadot and/or Ampal American (hereafter: "consolidated financial report") from time to time and at all times in accordance with any law and in accordance with generally accepted accounting principles including, inter alia, balance sheet, income statement, cash flow statement, statement of changes in shareholders' equity, including the notes thereto, and in addition thereto any other report, notice and instrument being and/or that shall be required under any law and/or by any authorities and/or entities and/or competent concerns; and the annual financial statements shall be audited and the quarterly financial statements shall be reviewed – by an external auditing accountant, in accordance with principles, reporting principles and generally accepted accounting standards having been and/or that shall be established from time to time by the Institute of Certified Public

Accountants in Israel and/or statutorily.

Shareholders' equity	In accordance with the accounting rules and principles generally accepted in Israel and/or in the United States (all according), being statutorily applicable to public companies, as they are presented in the financial statements, together with loans granted to the Company by the owners, and net of loans granted by the Company to the owners and owners' withdrawals of any type whatsoever, and also net of intangible assets in respect of which no payment was made.
The determining date	December 31, 2007
Gadot shares and/or the shares	The shares acquired by the Company i.e. 43,275,025 shares of NIS 0.1 n.v. constituting 65.6% of the authorized, issued and paid up share capital of Gadot and 63.6% fully diluted.
Legal opinion	A legal opinion letter signed by an attorney of the Company and addressed to the Bank, in a wording agreed by the Bank and confirming to the Bank, inter alia, the validity of this instrument, the credit documents, the security and the bonds, the Company's holdings in Gadot and also all means of control and control in Gadot, the holdings of parties at interest and/or owners in the Company and all the means of control and control in the Company and all both directly and/or indirectly as far as the ultimate physical owner.
Gadot shares acquisition agreement	An agreement whereby the Company acquired shares of Gadot including the whole complex of agreements and the related appendices
The Companies Law	The Companies Law 5759-1999 and/or any other law that shall be made in addition thereto or that shall supersede the Companies Law

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Account	Account No. 10492 having been opened in the name of the Company with the Bank, Tel-Aviv Head Office , Branch No (10), including and together with all compensation accounts, related accounts, ancillary accounts, secondary accounts, adjunct accounts, monetary accounts, securities, deposits and more as shall be from time to time and at all times according to the Bank's records and its determination in this matter.
The credit instruments	All instruments, approvals, reference material, professional, legal and other opinions, the information, the material, the forms, the letters of conditions, the loan documents, agreements, arrangements, credit instruments, financing instruments, security and bonds, this instrument and so forth, as are or may be required the Bank at the sole discretion of the Bank from time to time and at all times under appropriate signatures, in wording and under conditions in accordance with the sole requirements and determinations of the Bank, in accordance with and subject to the procedures and the rules being in effect and customary with the Bank and also in accordance with the resolutions of the Bank as shall be from time to time and at all times – which the Company covenants to deliver to the Bank and/or the execute and/or to cause to be executed and/or to duly record in a timely fashion, in accordance with the requirements of the Bank and all at the Company's expense and on its responsibility and by its expenditure, and all to the full and complete satisfaction of the Bank.
Free and clear	A situation in which there is fulfilled the condition whereby all of the rights, the assets and the property acquired by the Company pursuant to the Gadot shares acquisition agreement including (and without derogating from the generality of the aforesaid) Gadot shares being clear, available, and completely free of all liens, pledges, attachments, rights of line, setoff rights, claims of right, debts and third party liabilities whatsoever.
The vendors	Netherlands Industrial Chemical Enterprises B.V.
Quarter	A continuous period of three months ending March 31, June 30, September 30, and December 31 of each and every year.
Assets	Real estate, chattels, moneys, rights, property and any other matter and thing in the most comprehensive and sweeping meaning thereof without limit, including the proceeds and income thereon, their substitutes, property being the consideration of such property and any assets having derived or come from the profits of such assets.
IFRS	International Financial Reporting Standards are standards and explanations adopted by the International Accounting Standards Commission. International Financing Reporting Standards include: (A) IFRS and also (B) International Accounting Standards (IAS) and also (C) Explanations determined by IFRIC (International Financial Reporting Interpretations Committee) or SIC (Standing Interpretations Committee) the committee that preceded it in interpreting international accounting standards.

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Proportion of mortgaged shares in Gadot	43,275,025 shares of NIS 1 n.v. constituting 65.6% of the issued, authorized and paid up share capital of Gadot being 63.6% fully diluted.
LIBOR	London Interbank Borrowing Rate – within the meaning of that term in the Bank as may be modified from time to time and at all times, at the sole determination of the Bank.
Financial debt	Debts to banks and/or financial institutions net of cash balances – in accordance with the financial statements of the Company alone.
Ampal American	Ampal-American Israel Corporation – a company registered in the United States in accordance with the laws of the State of New York.

As regards any word, term, phrase, expression and so forth in this agreement not being defined in this agreement, the meaning, interpretation and definition thereof shall be as customarily and generally accepted with the Bank, in accordance with the Bank's records from time to time and at all times, and also in accordance with the sole determination of the Bank. The appendices to this document constitute an integral part hereof.

2. Object of the financing

Acquisition of the ownership, control and means of control including Gadot shares at a rate of 65.6% of the share capital of Gadot and the assets of Gadot from the vendors pursuant to the Gadot Shares Acquisition Agreement (hereafter: “**transaction for the acquisition of ownership, control and means of control in Gadot**”).

3. Rate of financing –

- 3.1 The Bank shall finance the transaction for the acquisition of ownership, control and means of control in Gadot including Gadot shares at a rate of up to 65% of the acquisition cost pursuant to the Gadot shares acquisition agreement.
- 3.2 The balance of the requisite financing at a rate of some 35% of the acquisition cost of Gadot shares shall be paid by the Company in cash out of its own resources by way of deposit into the account – all as a precedent and suspending condition for the provision of the financing by the Bank.

4. The financing

A credit framework aggregating NIS 234 million, utilization of the credit framework being subject to the following conditions (“**the credit framework**”):

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4.1.1

- 4.1.1.1 Up to NIS 117 million for a period of 12 years commencing **December 3, 2007** and **ending December 3, 2019** in short term loans of up to one year as is customary with the Bank, on such terms as shall be agreed between us separately and shall find expression in the credit instruments, and inter alia, in the matter of: margin, interest, repayments/ payments of principal, interest, indexation differences, exchange rate differences, clearance tables, commissions, prices, expenses and so forth (hereafter: “Loan I”)
- 4.1.1.2 Interest on Loan I – Libor plus margin as set forth in Appendix B, with current interest payments on a quarterly or a six-monthly basis, or on the basis of any other period being shorter than six months.
- 4.1.1.3 The unutilized loan commission that shall be paid by the Company to the Bank at the end of every quarter for the past quarter. The non-utilization commission amount shall be computed on the basis of a daily computation within the commission calculation period as aforesaid.

4.1.2

- 4.1.2.1 Up to an additional NIS 117 million for a period of up to 12 years – regular six monthly interest payments and principal payments in accordance with the clearance table annexed to this document as Appendix A and constituting an integral part hereof (hereafter: “Loan II”)
- 4.1.2.2 Interest on Loan II - Libor plus margin as detailed in Appendix B

- 4.2 The credit framework shall be utilized in dollars as determined in accordance with the representative rate of exchange as of the first drawdown date of any of the loans
- 4.3 Notwithstanding the aforesaid, if there shall have occurred an instance of breach, then as from that date and for as long as the breach event shall not have been rectified to the satisfaction of the Bank, the credit framework shall be reduced and shall stand at the balance of the amounts actually utilized at that time and the Company shall not be entitled to utilize additional amounts out of the credit framework.
- 4.4 As a condition for granting the loans on account of the credit framework, the Company shall execute loan provision instruments as customary with the Bank. The Company shall also warrant with every drawdown application, that until the date of the drawdown application there has not occurred any breach event that has not been rectified to the satisfaction of the Bank.

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- 4.5 **Commissions, margins, prices, costs and expenses** – as set forth in Appendix B to this Document.
- 4.6 **“Utilization term”** – drawdown and utilization of the credit framework shall take place, subject to the conditions of this document and the credit instruments, throughout the period up to and not later than the determining date.
- 4.7 **Special interest increment** – it is hereby agreed and emphasized that the interest rates as per sub-paragraphs 4.1.1.2 and 4.1.2.2 shall automatically increase on service of 7 days notice by the Bank upon the Company by 2% in any event of breach of a material condition of this document, including all or any of the terms of the keeping of the current account under our signature, constituting an integral part of this document, for the entire duration of the breach in accordance with the Bank’s records, and all in respect of the increase in the risk to the Bank as a result of the breach. This special interest increment shall be charged by the Bank to the credit account and shall be defrayed by us separately, plus and together with the interest payments or debits as outlined above and in addition thereto. To dispel any doubt, it is emphasized that this special interest increment shall in no instance and under no circumstances be repayable, even after the amendment of the breach and/or under circumstances in which the Bank consents to waive or to postpone the implementation of the covenant that was breached, or to modify it or to allow any extension whatsoever. It is hereby stated that the Bank’s right to the special interest increment in a state of breach and also the actual collection thereof as aforesaid, shall not derogate from, shall not delay and shall in no wise impair any remedy or relief or right or cause available to the Bank against us pursuant to this document or pursuant to the conditions of the keeping of the current account under our signature and inter alia, nothing aforesaid is such as to derogate from the right of the Bank to collect from us or from our obligation to pay to the Bank arrears interest as outlined hereinafter as an increment to the cumulative interest as aforesaid, and also from all additional rights and causes being available to the Bank, under circumstances or in instances of breach or non fulfilment of all or any of our covenants and the aforesaid in this clause shall be in addition thereto.

5. Precedent and suspending conditions, financial stipulations and covenants

It is hereby agreed as precedent and suspending conditions for the granting of the credit and the continued availability of the credits already granted, and for repayment date not being brought forward and the credit not being called for immediate payment throughout the credit term and until the repayment in full and absolute clearance thereof in accordance with the Bank’s records – there shall apply, be fulfilled and be in existence all of the conditions, the provisions, the rules, the representations, and matters as set forth below, and all the other terms or representations of this document, and the Company (by appending its signature in the margins of this document), hereby irrevocably consents and covenants toward the Bank to fulfil and execute them and/or to take steps to cause that they be fulfilled and executed to the full and complete satisfaction of the Bank in accordance with the Bank’s assessments and reasonable and sole discretion, through the entire credit term until the full and absolute payment and repayment thereof in accordance with the Bank’s records and at its determination, and all in addition to and without derogating from all of stipulations, the conditions and the requirements of the credit instruments, these being the rules, the matters, the provisions and the conditions to which the Company covenants towards the Bank as stated:

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5.1 The Company

- 5.1.1 Matters agreed, approvals and legal opinion – the Company shall deliver to the Bank the following instruments:
- 5.1.1.1 A legal opinion in such and wording as shall be agreed between the parties;
- 5.1.1.2 All of the matters agreed and the approvals required in order to validate the transaction for the acquisition of ownership, control and means of control including the Gadot shares and so forth

5.1.1.3 The Gadot shares acquisition agreement duly executed and/or prepared and/or made by the parties thereto, the Gadot shares acquisition agreement being fully valid and the Company having fulfilled all of its covenants in accordance therewith and that were due to be fulfilled prior to date of execution of this document.

5.1.1.4 All of the Company's rights pursuant to the Gadot shares acquisition agreement are clear and free.

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5.1.2

5.1.2.1 The balance of the Company's credit with the Bank shall not exceed the economic value of the Gadot shares mortgaged to the Bank multiplied by 0.833. The economic value of the Gadot shares mortgaged to the Bank shall be determined in accordance with valuations that shall be delivered to the Bank by the Company. To date of the first valuation made following acquisition of the aforesaid shares, the value of the shares shall be determined on the basis of the acquisition price.

5.1.2.2 The aforesaid measurements shall be made by the Bank continuously and regularly in accordance with criteria and procedures and rules being in effect and generally accepted with the Bank and the determination of the data detailed above shall be at with the Bank's sole discretion and in accordance with the Bank's sole resolutions.

5.1.2.3 The Company shall deliver to the Bank a valuation, once a year, at the Bank's demand, within 60 days of the date of demand. The valuation shall be made by one of the five major accountancy firms in Israel or by one of the three major firms in Israel engaging in corporate valuations – and all to the satisfaction of the Bank.

5.1.3 Control and means of control in the Company –

The ownership and control position in the Company including the holdings of all means of control of its authorized, issued and paid up share capital is as follows:

Itemization of holdings of the means of control:

Name	Registration/identity number	Particulars of shares and class of shares	% Holdings
Ampal Energy Ltd	51-375377-2	Ordinary shares	100%

The ownership structure of all of the means of control and control of the Company as set forth hereinabove shall be preserved and maintained at all times, such that, subject to this condition, there shall not be mortgaged, shall not be attached, shall not be sold, shall not be assigned, shall not be transferred and shall not be diluted any of the shares and/or the holdings and/or the rights of Ampal American in the Company

5.2 Ampal American

5.2.1 The shareholders' equity of Ampal American as set forth in the solo financial report of Ampal American shall be not less than the higher of the sum of 200 million dollars or a rate of 35% of the balance sheet total.

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5.2.2 Control and means of control -

The ownership and control position in Ampal American including the holdings of all of the means of control in its authorized, issued and paid up share capital is as follows:

Details of holdings of the means of control:

Name	Registration/identity number	Particulars of shares and class of shares	% Holdings
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Merhav (M.N.F) Ltd	510618556	4,476,389 shares	7.8%
De Majorca Holdings Ltd	513920157	18,850,153 shares	32.7%
Di-Rapallo Holdings Ltd	513900969	9,650,132 shares	16.7%

The ownership structure shall always be preserved and shall persist, in all the means of control and the control over Ampal American as set forth hereinabove in this clause, such that, subject to this condition, the shares and/or the holdings and/or the rights of Yossi Maiman in Ampal American shall not be mortgaged, shall not be attached, shall not be sold, shall not be assigned, shall not be transferred and shall not be diluted to below the rate of a 40% direct and/or indirect holding in Ampal American.

5.2.3 Ampal American shall not pay and shall not make any distribution (within the definition thereof in the Companies Law) and shall not covenant to pay in any shape or form whatsoever, either direct or indirect, any amounts of money out of its earnings or its equity or out of any other source whatsoever, including dividends (within the definition thereof in the Companies Law) or interest or management fees or compensation or indemnification or consultation fees or any amounts of money or cash equivalents in any shape or form whatsoever to parties at interest and/or to its shareholders and/or to its controlling shareholders and/or to companies and/or corporations any of whose shareholders is a party at interest therein and/or to any third party whatsoever that may replace or appear on behalf of any of the abovementioned. The covenants per this sub-paragraph 5.2.3 shall not apply to transactions between Ampal American and parties at interest therein and/or to its shareholders and/or to companies and/or corporations any of whose shareholders is a party at interest therein and/or to any third party whatsoever that may replace or appear on behalf of any of the abovementioned and that shall have been approved as interested party transactions in accordance with the law being applicable to Ampal American for this purpose.

If there shall not have occurred any event of breach vis-à-vis the Bank, the Company will be permitted to pay the controlling shareholder management fees or compensation or indemnification or consultation fees provided that the payment of such moneys shall not result in a breach of its covenants vis-à-vis the Bank, either at the time of the drawdown or throughout the entire credit term.

5.2.4 Ampal American covenants not to acquire, not to provide financing for the acquisition of, and also not to covenant to acquire or provide financing for the acquisition of shares of Ampal American, in any shape or form whatsoever, including and without derogating from the generality of the aforesaid, by providing guarantee, either directly or indirectly, to the Company or to a subsidiary of the Company or to a corporation under their control, without obtaining the prior written consent of the Bank so to proceed, and all with the exception of statutorily approved interested party transactions under the law applying to Ampal American for this purpose.

5.3 Gadot

5.3.1 The ratio between the financial debt of Gadot and its EBITDA according to its consolidated financial report shall not exceed the following volumes:

Period	Debt / EBITDA ratio
To June 30, 2010	Not more than 7
From July 1, 2010 to June 30, 2011	Not more than 6
From July 1, 2001 and thereafter	Not more than 5

5.3.2 The shareholders' equity of Gadot under IFRS principles as set forth in the consolidated financial report – shall be not less than the higher of the sum of NIS 170 million (linked to the Consumer Price Index commencing as from date of execution of this document) or than a rate of 13% of total balance sheet.

5.4 All financial ratios are to be measured on a quarterly basis

6. Security and guarantees

As additional precedent and suspending conditions for the allocation of the credit framework and the utilization thereof, the Company shall deliver to the Bank and/or shall cause to be issued and delivered to the Bank the security and the guarantees as detailed below, and all being first ranking, and solely and exclusively to credit of the Bank and also in such wording and on such conditions as shall be required by the Bank, to the full and complete satisfaction of the Bank, as follows:

6.1 All (100%) of the Company's shares in Gadot, i.e. 43,275,025 Gadot shares constituting 65.6% (and, fully diluted – 63.6%) of the total authorized, issued and paid up share capital of Gadot including all of the proceeds thereof and also the account including all the moneys and securities being and or that shall be on deposit therein.

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- 6.2 The shares shall be transferred into the name of Discount Trust Ltd in accordance with the conditions set forth in the irrevocable instructions of the Company to Discount Trust. At the request of the Bank, the Company will cooperate with it in restoring the shares to marketability on the Tel-Aviv Stock Exchange.
- 6.3 All of the Company's rights in respect of the Gadot shares acquisition agreement, including all of the rights and/or assets and/or shares and/or moneys and/or anything else of any type and kind whatsoever, either direct and/or indirect being due and/or that shall become due to the Company in accordance and/or in connection with and/or by virtue of the Gad shares acquisition agreement.
- 6.4
- 6.4.1 All the amounts, the income, and the payments without exception being and/or that shall become due, being and/or that shall become payable to the Company from Gadot in respect of the Company's holdings in shares of Gadot and inter alia management fees, consultancy fees, dividends, distribution (within the meaning thereof in the Companies Law), refunds, cash flow and so forth – shall be deemed to be and shall always be subject to the mortgage rights and rights of lien in favour of the Bank and shall be directly transferred solely to the account and shall serve, entirely and fully, by way of exercise of the rights of lien and setoff of the Bank in the framework of the security and the guarantees to be credited on account of the Company's debts towards the Bank in respect of the credit at that time, which shall be reduced accordingly.
- 6.4.2 In any situation in which the dividend amounts payable to the Company by Gadot exceed the volume of current payments on account of the loan's current maturities, and no event of breach shall have occurred towards the Bank, then such excess balance shall be credited to the account of the Company, provided that the Company seeks permission, in writing, from Discount Trust Ltd to credit its account with the Bank and the Bank approves the transfer.
- 6.5 In any instance in which the issued and paid up share capital of Gadot is increased as a result of an increase of capital and/or issuance, and/or under any other and/or additional circumstances, without exception, at any time and at all times – then the Company hereby covenants to further increase the quantity of shares in Gadot being mortgaged to the Bank all by way of creating additional liens such that all Gadot shares being mortgaged to the Bank by the Company at any point in time and at all times shall be not less than a rate of 51% of the fully diluted issued and paid up share capital of Gadot. In any event the result of the aforesaid transactions shall not give rise to a breach of the ratio described in sub-paragraph 5.1.2.1

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- 6.6 Guarantee of unlimited amount of Ampal American to secure all of the Company's debts to the Bank in respect of the credit, in unlimited amount, in such wording and on such conditions as the Bank may require.
- 7 The Bank shall retain the option of selling and/or transferring and/or endorsing and/or assigning and/or securitizing the credit and/or the credit instruments, in whole or in part, to any concern whatsoever on such conditions as the Bank may deem fit, provided that the Company's rights and obligations pursuant to the credit instruments shall not be modified and shall remain fully valid .
8. The Company and/or Ampal American shall not adopt resolutions as to voluntary liquidation, corporate restructuring, merger and/or any resolution as to compromise or arrangement within the meaning thereof in the Companies Law 5759-1999 or any other law that may be promulgated in addition thereto and/or in lieu thereof and/or any application for a stay of proceedings order under the Companies Law 5759-1999 or any other law that may be promulgated in addition thereto and/or in lieu thereof.

The import of this clause relates both in respect of merger in accordance with Part Eight or Part Nine of the Companies Law and in respect of any other merger in accordance with which the bulk of the Company's assets are acquired by another corporation or whereby shares of the Company are acquired being such as to confer on the acquiring party control in the Company or whereby the Company directly or indirectly acquires the bulk of the assets of another corporation or shares of another corporation conferring on it control of such corporation.

9. **Repayment of the credit and the calling thereof for immediate repayment**

- 9.1 It is hereby agreed that, inter alia, the instances in which the Bank shall have cause to bring forward the repayment date of the credit and call it for immediate repayment (including realization of the security and the guarantees, and setoff of the proceeds of the realization on account of the secured debts) all as set forth in the credit instruments and, in addition thereto, every one of the following instances, which, in the opinion of the Bank, are injurious to the Company's solvency:

- 9.1.1 If the Company fails to pay the Bank any amount whatsoever being due to the Bank from the Company on account of the credit and/or the debts on the due date appointed for the payment thereof.
- 9.1.2 If the Bank discovers that changes have been made in the instruments of incorporation of the Company and/or Ampal American and/or Gadot, being such as to injure the Bank's rights, without the prior written consent of the Bank.

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- 9.1.3 If there shall arise to any creditor of the Company and/or Ampal American and/or Gadot, cause, in accordance with the instruments of contractual agreement between it and the Company and/or of Gadot and/or of Ampal American, all according, for bringing forward the repayment date of its debts, and/or calling its debts for immediate repayment and which, in the opinion of the Bank, are injurious to its rights.
- 9.1.4 If there exists any material breach of the conditions of this document and/or the conditions of the credit instruments
- 9.1.5 If any event shall have occurred or if circumstances prevail and/or if any situations come into effect which, in the opinion of the Bank, may materially injure the value of Gadot and/or of the Company and/or of Ampal American.
- 9.1.6 If, in the opinion of the Bank, any material deterioration shall have occurred in the economic position and/or solvency of the Company and/or of Gadot and/or of Ampal American.
- 9.1.7 If there shall have arisen any situations and/or conditions and/or circumstances in which, in the opinion of the Bank, there is no reasonable prospect that the Company will pay its debt to the Bank and/or if, in the opinion of the Bank, there are reasonable grounds to fear that the debt of the Company will not be paid in the amounts and instalments and at the times stipulated in the credit instruments and/or that the Company is not fulfilling and/or will be unable to fulfil its covenants vis-à-vis the Bank on due date thereof as per this document and/or as per the credit instruments and/or the security and the bonds.
- 9.1.8 If the Company and/or Ampal American shall be in breach of any of their material covenants pursuant to this document and/or if it should transpire that any of their warranties is untrue.
- 9.1.9 If there should be a suspension of trading of 21 consecutive days in the shares of Gadot or if the shares of Gadot are de-listed from Tel-Aviv Stock Exchange trading.
- 9.1.10 If there shall be filed against the Company and/or against Gadot and/or against Ampal American an application for a stay of proceedings order pursuant to Section 350 of the Companies Law 5759 -1999 or under any additional and/or other law that may replace it and such applications are not withdrawn within 30 days and in the opinion of the Bank that fact is such as to impair or to endanger the value of the security given to the Bank.
- 9.1.11 If there shall form part of the agenda of the general meeting and/or of the meeting of the Board of Directors of the Company and/or of Gadot and/or of Ampal American a draft resolution concerning the following matters: a resolution pursuant to Sections 350 and/or 351 of the Companies Law 5759-1999 and a resolution on voluntary liquidation or a resolution on merger and/or corporate restructuring

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- 9.1.12 If, at the sole determination of the Bank, a change shall have occurred in the control over the Company and/or Gadot and/or Ampal American or in their equity or structure as against the status quo as of the date of this document, whether by means of voluntary transfer of shares or otherwise, whether as recipient company or as transferring company, or as splitting company, and/or if the name of Gadot is stricken out of the statutorily kept register and/or if it should transpire that it is about to be stricken out.
- 9.2 In any one of the instances detailed in sub-paragraph 9.1 above, depending on the circumstances of each and every case, the Company shall be served notice allowing the Company a curative period of 30 days, provided that payments are not in arrears of more than 7 days, but notwithstanding the aforesaid in this Clause, and/or any matter stipulated in sub-paragraph 9.1 above, with all the sub-paragraphs thereof, in circumstances of especial urgency, in which damage is liable to be occasioned to the Bank and/or the rights of the Bank as creditor are liable to be injured as a result of any waiting period and/or extension as aforesaid – then the Bank shall be entitled to act and to exercise its rights immediately and without any delay and/or postponement or waiting period whatsoever.

9.3 Prepayment –

The Company shall be entitled to prepay the credit or any portion thereof subject to the following cumulative conditions:

- 9.3.1 The prepayment shall be made solely on the interest payment dates as set forth in the loan provision instruments executed or that shall be executed by the Company.
- 9.3.2 There shall be served on the Bank in respect thereof 30 business days' written notice prior to the anticipated repayment date. Notice of prepayment shall be deemed irrevocable in respect of the entire amount specified therein and such notice shall be deemed to be an irrevocable order on the part of the Company to debit its account at the Bank with the prepayment amount
- 9.3.3 Any amount of Loan II that is prepaid shall not be provided again.
- 9.3.4 In the event that only a part of the principal of the loan is prepaid, then the balance shall continue to be repaid in the original amounts stipulated in the loan instruments; and the repayment period shall be shortened accordingly.
 - 9.3.4.1 On the prepayment date, the Company shall pay the Bank the principal of the prepayment amount together with the interest in respect thereof and commissions as generally accepted in the Bank in respect of prepayment, to the aforesaid date.

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9.3.5 Without derogating from sub-paragraph 9.3.4 aforesaid, the Company shall be exempt from prepayment commission fine:

9.3.5.1 If they are implemented on the interest payment dates and the source of the repayment is cash flow surpluses in the Company or dividends being due to the Company from Gadot

9.3.5.2 If the prepayment is made on interest payment dates but the source thereof is not cash flow surpluses or dividend, then a flat commission of 1% shall be collected on the amount paid.

10. **Reports –**

10.1 The Company shall deliver the Company's financial statements to the Bank by and not later than 120 (a hundred and twenty) days from the end of each calendar year. If the Company publishes additional consolidated or other financial statements in Israel or elsewhere, either audited or unaudited, the Company shall deliver to the Bank copies thereof as soon as possible after publication thereof, excepting in case of an annual report, which shall be forwarded within 120 days.

10.2 The Company shall deliver to the Bank the financial statements of Gadot not later than 60 (sixty) days as of the end of any calendar quarter and/or calendar year, all according. If Gadot publishes additional consolidated or other financial statements in Israel or elsewhere, either audited or unaudited, the Company shall deliver copies thereof to the Bank as soon as possible following publication thereof, except in case of an annual report which shall be forwarded within 90 days.

Gadot shall include in a note to its annual financial statements for the year ended December 31, 2007, the balance sheet data as of December 31, 2007 and the income statement data for the year ended December 31, 2007, after there shall have been applied in respect thereof the principles of recognition, measurement and presentation as per IFRS standards.

10.3 The Company shall deliver to the Bank the financial statements of Ampal American by and not later than 60 (sixty) days as of the end of each calendar quarter and/or each calendar year, all according. If Gadot publishes additional consolidated or other financial statements in Israel or elsewhere, either audited or unaudited, the Company shall deliver copies thereof to the Bank as soon as possible following publication thereof, except in case of an annual report which shall be forwarded within 90 days.

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10.4 In addition the Company shall issue to the Bank, by and not later than 60 days as from the end of each quarter, a calculation of all the data in connection with the financial stipulations set forth in this document with confirmation and under hand of the Company's General Manager or the Company's VP Finance.

10.5 In addition to and without derogating from all of the aforesaid, we shall deliver to you from time to time, at your demand,

additional information on the business data and the financial position of the Company and all in written reports in such reporting format and in accordance with such details as you shall require – and all within 15 days of date of any reporting requirement on your part.

11. **General –**

- 11.1 This document shall constitute and shall always form an integral part of any of the forms, the instruments, the security and the guarantees, the letters of conditions and so forth as are and/or shall be present in the Bank from time to time and at all times under our hand and/or under hand of others on our behalf and as may be valid at any time in such a way that they are to be read in conjunction, in a single continuum, and en bloc, as part of the conditions thereof, as complementing one another and as adding to one another.
- 11.2 Any material breach and/or non-fulfilment of all and/or any portion of the import and stipulations of this document, shall constitute and shall be deemed also be a breach of the credit instruments and an additional default cause that shall confer on the Bank the right to call the credit and the debts for immediate repayment, with all that is thereby implied, as a result, and the Company covenants to pay them to the Bank under such circumstances at the Bank's first demand.
- 11.3 A waiver by the Bank to the Company in respect of non fulfilment of one of more of the Company's covenants towards the Bank, either included or that will be included in future in any other instrument, shall not be deemed justification or excuse for any breach or any further non-fulfilment of any of the conditions or stipulations aforesaid.; and the Bank's refraining from the use of any right whatsoever vesting in it pursuant to this document and/or any other instrument and/or under any law, shall not be construed as a waiver of such right.

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- 11.4 The Company and/or Ampal American warrant and covenant toward the Bank that it has duly adopted all resolutions and obtained all approvals statutorily necessary and as per its instruments of incorporation for its contractual engagement pursuant to this document and the implementation of all of its covenants in accordance herewith and also that it does not require any 3rd party consent or approval for contracting pursuant to this document and for fulfilling all of its covenants detailed herein; in addition, the Company and/or Ampal American warrant and covenant toward the Bank that there exists no prohibition and/or impediment and/or limitation whatsoever, either statutorily or pursuant to any agreement, against the Company and/or Ampal American executing this document and the implementation hereof by it does not constitute a breach of and/or injury to any 3rd party right, including under any law and/or agreement and/or any other covenants toward any 3rd party.
- 11.5 Our above-mentioned covenants are non contingent, unconditional, absolute and irrevocable and we shall not be entitled to annul or modify them, without obtaining your prior written consent, since we are aware that you rely on them in providing the credit.
- 11.6 There shall be applicable to this document and to every one of the credit instruments and also the security and the guarantees and all the various other instruments executed by and/or on behalf of the Company solely the laws of the State of Israel, and shall be from time to time.
- 11.7 The sole and exclusive venue for the purposes of this document shall be the competent law courts in the city of Tel-Aviv – Jaffa, Israel.
- 11.8 The appendices to this document constitute an integral part hereof.

In witness whereof we have set our hand

Merhav Ampal Energy Ltd

We consent to the foregoing and shall act accordingly

Date: December 3, 2007

Israel Discount Bank Ltd

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Date: December 3, 2007

Dear Sirs,

We, the undersigned, Ampal American Israel Corporation (hereafter: "Ampal American") do hereby confirm to the Bank our assent to the entire import of the foregoing instrument under hand of Merhav Ampal Energy Ltd Company No. 51-375407-7, constituting an integral part of this document and which are to be read in conjunction, and as a single continuum (hereafter: "Merhav Ampal covenant") and we hereby irrevocably warrant and covenant toward the Bank that we shall act in accordance and shall not do anything being by way of a breach of the import of the Merhav Ampal covenant and/or that does not conform to the import thereof and likewise we shall cause Merhav Ampal to act in accordance with the Merhav Ampal covenant aforesaid, and hereby covenant, absolutely and irrevocably toward the Bank, to cause the entire import of the Merhav Ampal covenant aforesaid to be fulfilled and implemented by Merhav Ampal and/or by us to the extent that this is related to and/or dependent on us as owners, and also to the full and complete satisfaction of the Bank.

In addition, and without derogating from the generality of the aforesaid, I hereby further emphasise my irrevocable covenant toward the Bank as follows (as stated and as defined in the aforesaid Merhav Ampal covenant):

- (1) The shareholders' equity of Ampal American as detailed in the solo financial report of Ampal American shall be not less than the higher of the sum of 200 million dollars or a rate of 35% of the total balance sheet .
- (2) The ownership structure of all the means of control and the control over Ampal American as set forth in the Merhav Ampal covenant aforesaid shall always be maintained and exist, such that, subject to this condition, there shall not be mortgaged, shall not be attached, such not be sold, shall not be assigned and shall not be transferred and shall not be diluted the shares and/or the holdings and/or the rights of Yossi Maiman in Ampal American in such a way that there shall always be preserved and shall continue to exist the control of Yossi Maiman in Ampal American at a rate that shall be not less than 40%.
- (3) Ampal American shall not pay and shall not implement any distribution (within the definition thereof in the Companies Law) and shall not covenant to pay in any shape or form whatsoever, either directly or indirectly, any amounts whatsoever out of its earnings or its capital or out of any other source whatsoever, including dividends distribution (within the definition thereof in the Companies Law) or interest or management fees or compensation or indemnification or consultancy fees, or sums of money or cash equivalents in any shape or form whatsoever to parties at interest and/or to its shareholders and/or to its controlling shareholders and/or to companies and/or corporations any of whose shareholders is a party at interest therein and/or to any third party whatsoever that may replace or stand in lieu of any of the above. If no instance of breach toward the Bank shall have occurred, then the Company will be permitted to pay the controlling shareholder management fees or compensation or indemnification or consultancy fees or remuneration, provided that the payment of such moneys does not cause a breach of its covenants towards the Bank either at the time of drawdown or throughout the entire credit term.

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- (4) Ampal American covenants not to acquire, not to provide financing for the acquisition of and not to covenant to acquire or to provide financing for the acquisition of, shares of Ampal American, in any shape or form whatsoever including and without derogating from the generality of the aforesaid , by the giving of a guarantee, either directly or indirectly, to the Company or to a subsidiary of the Company or to another corporation under their control, without obtaining the Bank's prior written consent.

Our above-mentioned covenants shall be binding upon us as long as Merhav Ampal remains owing you any amount of money whatsoever.

In witness whereof we have set our hand

Ampal American Israel Corporation

Messrs
Israel Discount Bank Ltd
Tel-Aviv
(Hereafter: "the Bank")

Date: December 3, 2007

Dear Sirs,

I, the undersigned, Yosef Maiman, (Id. No 012770533) do hereby warrant and covenant towards the Bank that as long as Merhav Ampal Energy Ltd Company No. 51-375407-7 owes you any amount of money whatsoever pursuant to the irrevocable letter of undertaking executed by Merhav Ampal Energy Ltd as of December 3, 2007, I shall directly or indirectly hold at least 40% of the issued

and paid up capital of Ampal American Israel Corporation and these holdings shall be the highest rate of holding, directly or indirectly, of all the shareholders of Ampal American Israel Corporation.

In witness whereof I have set my hand

Yossi Maiman

OPTION AGREEMENT

among

AMPAL-AMERICAN ISRAEL CORPORATION

and

MERHAV (M.N.F.) Limited

dated as of December 25, 2007

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OPTION AGREEMENT

OPTION AGREEMENT (this “Agreement”), dated as of December 25, 2007, by and among Ampal-American Israel Corporation, a New York corporation (“Ampal”), and Merhav (m.n.f.) Limited, a company organized under the laws of the State of Israel (“Merhav”) (each, a “Party” and, collectively, the “Parties”).

RECITALS

WHEREAS, Merhav, directly and through certain subsidiaries, intends to develop an ethanol-producing project in Colombia, as more fully described on Exhibit A hereto (the “Project”);

WHEREAS, Merhav has offered Ampal the opportunity to participate in the Project;

WHEREAS, Ampal has expressed interest in the Project but requires additional time to complete its due diligence with respect to the Project;

WHEREAS, Merhav needed to fund the purchase of the real property for the Project prior to the anticipated completion of Ampal’s due diligence;

WHEREAS, to provide Merhav the required funding and Ampal the additional required time to complete its due diligence on the Project, (i) Ampal extended Merhav a loan in the original principal amount of \$20,000,000 (the “Loan”) pursuant to the Promissory Note, dated as of the same date hereof by Merhav in favor of Ampal (the “Promissory Note”) and (ii) Merhav granted Ampal the option set forth in this Agreement to purchase up to 35% percent interest in the Project on the terms herein set forth;

NOW, THEREFORE, in consideration of the aforesaid premises and of the mutual representations, warranties and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

ARTICLE I

DEFINITIONS

The following terms shall have the following meanings for purposes of this Agreement:

“Affiliate” means (i) with respect to any Person, a Person that controls, is controlled by, or is under common control with such Person (it being understood, that a Person shall be deemed to “control” another Person, for purposes of this definition, if such Person directly or indirectly has the power to direct or cause the direction of the management and policies of such other Person, whether through holding ownership interests in such other Person, through agreements or otherwise); and (ii) with respect to any natural Person, (1) any parent, grandparent, sibling, child or spouse of such natural Person, or other Person related by marriage to any such Persons, (2) any trust established for the benefit of such natural Person or any Affiliate of such natural Person or (3) any executor or administrator of the estate of such natural Person.

“Agreement” has the meaning set forth in the Preamble.

“Authority” means any governmental, judicial, legislative, executive, administrative or regulatory authority of Israel and the United States or any state, local, provincial or foreign government or any subdivision, agency, commission, office or judicial, administrative or regulatory authority thereof.

“Business Day” means any day other than a Saturday, Sunday or a day on which banking institutions in New York, New York or Israel are authorized or obligated by law or executive order to close.

“Charter Documents” means any by-laws, charter, memorandum, certificate of incorporation, articles of association and any other similar constitutive or governing documents.

“Consent” means any consent, waiver, approval, authorization, exemption, registration, permit, license or declaration of or by any Person or any Authority, or expiration or termination of any applicable waiting period under any Legal Requirement, that is required with respect to any Party in connection with (i) the execution and delivery of this Agreement or any other Transaction Document or (ii) the consummation and performance of any of the transactions provided for hereby or thereby.

“Contract” or “Contracts” means any and all contracts and agreements, including those that are franchises, warranties, understandings, arrangements, leases, licenses, registrations, authorizations, mortgages, bonds, notes and other instruments (whether written or oral).

“Definitive Documentation” has the meaning set forth in Section 2.1(c).

“Judgments” means any and all judgments, orders, writs, directives, rulings, decisions, injunctions, decrees, settlement agreements or awards of any Authority or arbitrator.

“Legal Requirements” means any and all (i) laws, ordinances and regulations, whether federal, provincial, state or local, of Israel, the United States, or any other applicable jurisdiction; (ii) codes, standards, rules, requirements and criteria issued under any laws, ordinances and regulations, whether federal, provincial, state or local of Israel, the United States or any other applicable jurisdiction; and (iii) Judgments.

“Liabilities” means any obligation, liability, or indebtedness of any kind, character or description, whether absolute, contingent, accrued, liquidated, unliquidated, known, unknown, executory or otherwise.

“Lien” means any mortgage, pledge, hypothecation, charge, assignment, deposit arrangement, encumbrance, security interest, lien, fiduciary assignment and any security or similar agreement of any kind or nature whatsoever.

“Loan” has the meaning set forth in the Recitals.

“Necessary Action” means, with respect to a result required to be caused, all actions (to the extent such actions are permitted by applicable Legal Requirements) reasonably necessary to cause such result.

“Note Balance” has the meaning set forth in Section 2.1(b).

“Option” has the meaning set forth in Section 2.1(a).

“Option Closing” has the meaning set forth in Section 2.1(c).

“Option Interest” has the meaning set forth in Section 2.1(a).

“Option Termination Date” means the earlier of (i) one year from the date hereof or (ii) the Qualified Financing Date.

“Party” or “Parties” has the meaning set forth in the Preamble.

“Person” means an individual, corporation, partnership, trust, limited liability company, a branch of any legal entity, unincorporated organization, joint stock company, joint venture, association or other entity, or any government, or any agency or political subdivision thereof.

“Pledge Agreement” means the Pledge Agreement, dated as of the date hereof, between Merhav and Ampal, delivered a security for the Loan.

“Preamble” means the preamble to this Agreement.

“Promissory Note” has the meaning set forth in the Recitals.

“Project” shall have the meaning set forth in the recitals.

“Purchase Price” has the meaning set forth in Section 2.1(b).

“Qualified Financing Date” means the date on which both of the following events have occurred: (i) Merhav has obtained debt financing for the Project from an unaffiliated Third Party and (ii) an unaffiliated third party holds no less than a 25% equity interest in the Project.

“Recitals” means the recitals to this Agreement.

“Third-Party Price” means the lowest price paid by an unaffiliated third party for interests in the Project.

“Transaction Documents” means each of this Agreement, the Promissory Note, the Pledge and any other agreement, certificate or instrument delivered pursuant to any of the foregoing.

“Transfer” means, whether voluntary or involuntary, any transfer, assignment (including any fiduciary assignment), conveyance, sale, pledge or hypothecation.

“Valuation Model” means the model, dated as of October 2007 prepared by Merhav and Galileo and attached hereto as Exhibit B, as reasonably updated with respect to project costs, financing costs and other similar changes by Merhav and Galileo, as such updates are approved by Houlihan Lokey Howard & Zukin as being consistent with the methodology and assumptions set forth in the original model attached hereto as Exhibit B.

ARTICLE II

OPTION

2.1 Option.

(a) At any time from the date hereof through the Option Termination Date, Ampal shall have the option (but not the obligation) to purchase from Merhav (or the relevant subsidiary or Affiliate of Merhav) up to a 35% equity interest in the Project on a fully diluted basis (the “Option”). Ampal may exercise the Option set forth in this Section 2.1 by delivering written notice of its exercise of such right to Merhav (the “Option Notice”) prior to the Option Termination Date, setting forth the percentage interest (the “Optioned Interest”) up to 35% of the Project that Ampal shall acquire pursuant to the Option.

(b) The Purchase Price (as defined below) for the Option Interest shall be paid as follows: (i) first, by conversion of the balance (up to the amount of the Purchase Price) of the outstanding balance of principal, interest and all other amounts due under the Promissory Note (the “Note Balance”) and (ii) if the Purchase Price exceeds the Note Balance, the excess of the Purchase Price over the Note Balance shall be paid by Ampal to Merhav at the Option Closing. The purchase price for the Optioned Interest (the “Purchase Price”) shall be determined as follows: the sum of (A) to the extent the Note Balance is being converted for the purchase of the Optioned Interest, the purchase price for each portion of the Optioned Interest shall be the lower of (x) the purchase price for the Optioned Interest based on a valuation of the Project in accordance with the Valuation Model or (y) the Third Party Price, and (B) after converting the Note Balance in full at the price determined pursuant to clause (A) of this sentence, any portion of the Optioned Interest that remains to be purchased shall be purchased at the Third Party Price, except if no Third Party price exists the purchase price will be based on the Valuation Model.

(c) Upon exercise of the Option, Ampal and Merhav shall execute within 45 days (the “Option Closing”) of the date of the Option Notice but not later than the Qualified Financing Date definitive documents evidencing (i) the purchase by Ampal from Merhav of the Optioned Interest, which documents shall have customary representations and warranties from Merhav, including with respect to Merhav (and any relevant subsidiary and affiliate relating to the Project), the Project and the Optioned Interest and (ii) the agreement between Ampal and Merhav with respect to the management and governance of the Project and the rights of Ampal as a holder of an Interest in the Project (the “Definitive Documents”). At the Option Closing, Merhav shall deliver to Ampal such documentation reasonably requested by Ampal and required to transfer to Ampal the Optioned Interest, free and clear of any Liens attributable to Merhav or any of its Affiliates. Merhav hereby acknowledges and confirms that Ampal’s obligation to consummate the purchase of the Optioned Interest is expressly conditioned upon the approval by the Audit Committee of the Board of Directors of Ampal of the Definitive Documents. Without limiting anything contained herein, Merhav and Ampal hereby agree that the Definitive Documents shall contain the following provisions:

- (i) the right to appoint such number of the directors (or members of any applicable governing body of the Project) of the total board of directors (or similar body) managing the project equal to the percentage interest the Optioned Interest is to the total outstanding equity interests of the Project (to the extent there is more than one entity is involved in the Project, this provision shall be read to provide Ampal with the ability to exercise the same amount of control as such number of directors (or other persons) would have if the Project was a single entity);
- (ii) the right to participate in any sale of an interest in the Project by an other interest holder on the same terms as such interest holder;
- (iii) full ratchet anti-dilution protection with respect to the Optioned Interest, with respect to any equity interest of the Project sold by the Company from and after the date of the Option Closing;
- (iv) right of first refusal for Ampal on any sale of any equity interest by Merhav after the Option Closing, provided that Merhav may transfer shares not subject to such right of first refusal (i) to a single strategic partner to the extent that such transferred equity interest, together with any equity interest currently held by such strategic partner, will not result in such strategic partner or its affiliates having an equity interest in the Project in excess of 35% of the Project and (ii) to Riagro S.A. to the extent such transferred equity interest does not exceed 2.5% of the Project;
- (v) any financing obtained by and for the Project shall be non-recourse to Ampal without Ampal’s consent;
- (vi) Ampal shall have the right to consent to any modification of the Charter Documents of the Project or any entity comprising the Project in a manner adverse to Ampal or any change in purpose of the Project;
- (vii) the right for Ampal to consent to any transactions involving the Project and Merhav or any of its Affiliates.
- (viii) customary preemptive rights; and
- (ix) Ampal shall be permitted to Transfer its interest.

(d) Notwithstanding the forgoing and without limiting the forgoing requirements of the Definitive Documents, Ampal shall have the benefit of any broader rights and preferences held or granted to any other investor.

ARTICLE III

MERHAV'S REPRESENTATIONS AND WARRANTIES

Merhav hereby represents and warrants to Ampal on the date hereof:

3.1 Existence; Authority; Enforceability. Merhav is a company duly organized and validly existing under the laws of Israel. Merhav has the requisite power and authority to enter into each Transaction Document to which it is a party and to perform its respective obligations thereunder. The execution, delivery and performance by Merhav of each Transaction Document to which it will be a party and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized and approved by all corporate action of Merhav. Merhav has duly and validly executed and delivered each Transaction Document to which it is a party, and each such Transaction Document constitutes its legal, valid and binding obligation, enforceable against Merhav, in accordance with its terms.

3.2 Interests in the Project. (a) Merhav currently owns 100% of the outstanding equity interests in the Project. All of the issued and outstanding interests in the Project have been duly authorized, validly issued and are be fully paid, nonassessable, free of preemptive rights, with no personal liability attaching to the ownership thereof. There are no outstanding securities convertible into, exchangeable for, or carrying the right to acquire, any interest in the Project, or subscriptions, warrants, options, calls, rights (pre-emptive or other) or other arrangements or commitments obligating any person to issue or dispose of any of its capital stock or any ownership interest therein, other than an Agreement with Riagro S.A., pursuant to which Riagro shall be entitled to up to a 2.5% equity interest in the Project, coming from Merhav's holdings in the Project.

3.3 Absence of Conflicts. The execution and delivery by Merhav of the Transaction Documents to which it is a party and the performance of its respective obligations hereunder and thereunder, and the consummation of the transactions contemplated hereby and thereby does not and will not conflict with, or result in the breach of any provision of, the Charter Documents of Merhav or any Contract or violate any Legal Requirement applicable to Merhav.

3.4 Compliance With Law; Consents. No Consent is required to be made or obtained by Merhav in connection with (i) the execution, delivery or performance of the Transaction Documents to be entered into by Merhav or (ii) the consummation of any of the transactions contemplated by the Transaction Documents. To the best of Merhav's knowledge, Merhav and the Project are in compliance in all respects with all applicable Legal Requirements, except where such failure would not have or could not reasonably be expected to have a material adverse effect on Merhav, the Project or Merhav's ability to consummate the transactions contemplated by, and perform its obligations, under the Transaction Documents.

3.5 Fees. Neither Merhav nor any of its Affiliates has paid or become obligated to pay any fee or commission to any broker, finder or intermediary in connection with the transactions contemplated hereby.

3.6 Disclosure. Merhav has provided to Ampal all documents and information (i) in Merhav's or any of its Affiliate's possession relating to the Project, and (ii) that is reasonably material in connection with a decision to make the Loan or exercise the Option, including without limitation the reports and evaluations of the Project set forth on Exhibit C hereto. No representation or warranty by Merhav contained in this Agreement or any other Transaction Document and no information contained in any other instrument furnished or to be furnished to Ampal pursuant hereto or in connection with the transaction contemplated by this Agreement or any other Transaction Document contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading. Merhav is not aware of any facts or circumstances which would cause the representations and warranties of Merhav contained in this Agreement or any other Transaction Documents to be untrue or incorrect. To the knowledge of Merhav, after due inquiry, there is no fact, circumstance or condition which has had or could reasonably be expected to have a material adverse effect on Merhav or the Project, which has not been disclosed to Ampal or its representatives.

ARTICLE IV

COVENANTS

4.1 Due Diligence. Merhav hereby agrees to cooperate with Ampal in its due diligence and shall provide Ampal with such information and documents as Ampal shall reasonably request. The Parties agree that the due diligence to be conducted by Ampal shall be to assist Ampal (i) in confirming the representations and warranties of Merhav set forth in this Agreement, and (ii) determining whether to exercise its Option. In addition, Merhav hereby agrees to promptly deliver to Ampal (x) any new material information with respect to the Project in its possession or control and (y) any reports, models, projections or other information provided to any other person or entity.

4.2 Further Assurances. Subject to the terms and conditions herein, each of the Parties agrees to take, or use reasonable commercial efforts in order to cause to be taken, all Necessary Actions and to do, or use reasonable commercial efforts in order to cause to be done, all things necessary, proper or advisable under all applicable Legal Requirements to consummate and make effective the transactions contemplated by the Transaction Documents to which it is a party.

ARTICLE V

SURVIVAL

5.1 Survival. Each representation and warranty in this Agreement shall survive for a period of two years after the date hereof, provided that (i) the representation set forth in Section 3.1 and 3.2 shall survive indefinitely and (ii) the survival periods set forth in this Section 5.1 shall not apply to any claims involving fraud or bad faith on the part of any Party hereto.

ARTICLE VI

MISCELLANEOUS

6.1 Governing Law. This Agreement shall be governed in all respects, including validity, interpretation and effect, by the internal laws of the State of New York without regard to its conflict of law principles (other than Section 5-1401 of the New York General Obligation Law).

6.2 Arbitration. All disputes between the parties hereto arising under the terms of this Agreement or any other Transaction Documents shall be arbitrated in New York City under the rules of the American Arbitration Association then obtaining in the City of New York judgment on any award made by the arbitrators hereunder may be rendered in any court having jurisdiction.

6.3 Severability. Each Section, subsection and clause of this Agreement and each other Transaction Documents constitutes a separate and distinct undertaking, covenant or provision hereof. In the event that any provision of this Agreement or any other Transaction Document shall finally be determined to be unlawful, such provision shall be deemed severed from this Agreement or such Transaction Document, but every other provision of this Agreement or such Transaction Document shall remain in full force and effect.

6.4 Interpretation. Whenever used in this Agreement, except as otherwise expressly provided or unless the context otherwise requires, any noun or pronoun shall be deemed to include the plural as well as the singular and to cover all genders. Unless otherwise specified, words such as “herein”, “hereof”, “hereby”, “hereunder” and words of similar import refer to this Agreement as a whole and not to any particular Section or subsection of this Agreement, and references herein to “Articles” or “Sections” refer to Articles or Sections of this Agreement. The headings in this Agreement are intended solely for convenience of reference and shall be given no effect in the construction or interpretation of this Agreement.

6.5 Costs and Expenses. Each Party shall bear its own expenses incurred in connection with the negotiation, preparation, execution and closing of this Agreement and each other Transaction Document and the transactions provided for hereby and thereby.

6.6 Notices. All notices or other communications required or permitted by this Agreement or any other Transaction Document shall be effective upon receipt and shall be in writing and delivered personally or by overnight courier, or sent by facsimile (with confirmation copies delivered personally or by courier within three (3) Business Days), as follows:

If to Merhav, to:

Merhav (m.n.f) Ltd
33 Havatzelet Hasharon Street
Herzlia, Israel
Attention: Mr. Yossef Maiman and Mr. Leo Malamud
Facsimile:+972-9-9501733

If to Ampal, to:

Ampal-American Israel Corporation
111 Arlozorov Street
Tel Aviv 62098 Israel
Attention: Yoram Firon
Facsimile:+972-3-6080101

with copies to:

Bryan Cave LLP
1290 Avenue of the Americas
New York, NY, USA 10019
Attention: Kenneth Henderson, Esq.
Facsimile: (212) 541-1357

or to such other address as hereafter shall be furnished as provided in this Section 6.6 by any Party to any other Party. Any demand, notice or other communication given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by facsimile, on the day of transmittal thereof if given during the normal business hours of the recipient, and on the Business Day during which such normal business hours next occur if not given during such hours on any day.

6.7 Counterparts. This Agreement and each other Transaction Document may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute a single instrument.

6.8 Entire Agreement. This Agreement together with the other Transaction Documents set forth the entire understanding and agreement between the Parties as to the matters covered herein and therein and supersede and replace any prior understanding, agreement or statement of intent, in each case, written or oral, of any and every nature with respect thereto. In the event of any inconsistency between this Agreement and the other Transaction Documents, this Agreement shall govern as between the Parties with respect to the matters set forth herein.

6.9 No Third Party Rights; Assignment. This Agreement is intended to be solely for the benefit of the Parties and is not intended to confer any benefits upon, or create any rights in favor, of any Person other than the Parties and shall not be assignable without the prior written Consent of the other Parties. Notwithstanding any of the foregoing, Ampal may transfer its rights and interests hereunder to an Affiliate.

6.10 Waivers and Amendments. No modification of or amendment to this Agreement or any other Transaction Document shall be valid unless in writing signed by the Parties referring specifically to this Agreement or such other Transaction Document and stating the Parties' intention to modify or amend the same. Any waiver of any term or condition of this Agreement or any other Transaction Document must be in a writing signed by the Party sought to be charged with such waiver referring specifically to the term or condition to be waived, and no such waiver shall be deemed to constitute the waiver of any other breach of the same or of any other term or condition of this Agreement or any other Transaction Document.

IN WITNESS WHEREOF, the parties hereto have duly executed this Option Agreement as of the date first above written.

AMPAL-AMERICAN ISRAEL CORPORATION

By: _____

Name: Irit Eluz, Yoram Firon
Title: CFO, VP

MERHAV (M.N.F) LIMITED

By: _____

Name: Yosef A. Maiman
Title: Director

[SIGNATURE PAGE TO OPTION AGREEMENT]

PROMISSORY NOTE

\$20,000,000.00

December 25, 2007

FOR VALUE RECEIVED, MERHAV (M.N.F) LIMITED, a company formed pursuant to the laws of the State of Israel, located at 33 Havatzelet Hasharon Street, Herzlia, Israel (“Borrower”), promises to pay to the order of Ampal-American Israel Corporation, a New York corporation, located at 111 Arlozorov Street, Tel Aviv 62098, Israel (“Lender”), at such office of Lender or at such other place as the holder hereof may from time to time appoint in writing, in lawful money of the United States of America in immediately available funds, the principal sum of TWENTY MILLION (\$20,000,000.00) Dollars or so much thereof as may then be the aggregate unpaid principal balance of such loan made by Lender to Borrower hereunder (the “Loan”) as shown on the schedule attached to and made a part of this Note. Borrower also promises to pay interest (computed on the basis of a 360 day year for actual days elapsed) at said office in like money on the unpaid principal amount of the Loan from time to time outstanding at a rate per annum equal to LIBOR Plus 2.25%. The entire unpaid balance, together with all interest accrued and unpaid thereon, and all other sums then due and payable to Lender under this Note shall be due and payable in full on the earlier of (i) December 24, 2008 and (ii) the Financing Date (as defined below) (the “Maturity Date”). Interest on outstanding amounts hereunder shall accrue on a quarterly basis and be payable on the earlier of (i) the date on which any portion of the balance of this Note is converted in accordance with Section 4 hereof or (ii) together with principal and any other amounts due hereunder, on the maturity hereof. Borrower further agrees that upon and following an Event of Default and/or after any stated or any accelerated maturity of the indebtedness evidenced hereby, the aggregate outstanding principal balance of the Loan shall bear interest (computed daily) at a rate equal to 5% per annum in excess of the rate applicable to such Loan, payable on demand. In no event shall interest payable hereunder be in excess of the maximum rate of interest permitted under applicable law. If any payment to be so made hereunder becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day and, to the extent permitted by applicable law, interest thereon shall be payable during such extension.

All payments made in connection with this Note shall be in lawful money of the United States in immediately available funds. All such payments shall be applied first to the payment of all fees, expenses and other amounts due to Lender (excluding principal and interest), then to accrued interest, and the balance on account of outstanding principal; provided, however, that after the occurrence of an Event of Default, payments will be applied to the obligations of Borrower to Lender as Lender determines in its sole discretion. Borrower hereby expressly authorizes Lender to record on the attached schedule the amount and date of the Loan and the date and amount of each payment of principal. All such notations shall be presumptive as to the correctness thereof (absent manifest error); provided, however, the failure of Lender to make any such notation shall not limit or otherwise affect the obligations of Borrower under this Note.

In consideration of the granting of the Loan evidenced by this Note, Borrower hereby agrees as follows:

1. Loan. Lender agrees to make a Loan to the Borrower in the aggregate amount of \$20,000,000 upon the request of the Borrower. The request for the Loan may be made up until 11:00 a.m., New York time, on the date the Loan is to be made. Any request for the Loan (i) must be written and may be delivered to Lender via email or facsimile transmission, (ii) must be accompanied with a full executed version of the Option Agreement, dated as of the date hereof, between Borrower and Lender, in the form attached hereto as Exhibit A (the “Option Agreement”) and (iii) must be accompanied by evidence that the Loan, and the execution, delivery and performance of this Note and the Option Agreement have been approved by the board of directors or other governing body of Borrower.
2. Prepayment. Borrower may not prepay the Loan at any time in whole or in part
3. Use of Proceeds. The proceeds of the Loan shall be used to facilitate the Project and to fund the purchase of 11,000 hectares of real property located in Colombia in connection with the development of an ethanol producing Project more fully described on Exhibit B.
4. Conversion/Mandatory. This Note shall be convertible into equity interests in the Project in the manner and in accordance with the Option Agreement. Interest shall cease to accrue on such portion of the outstanding amounts hereunder converted on the date of the Option Closing under the Option Agreement.
5. Events of Default. Upon the occurrence of any of the following specified events of default (each an “Event of Default”): (a) default in making any payment of principal, interest, or any other sum payable under this Note when due and such failure shall continue unremedied for a period of 30 days after Borrower receives notice thereof from Lender; or (b) default by Borrower (i) of any other obligation hereunder or (ii) in the due payment of any other obligation owing to Lender or (iii) under any other Loan Document, and the failure set forth in (i), (ii) or (iii) above shall continue unremedied for a period of 30 days after Borrower receives notice thereof from Lender; or (c) default by Borrower in the due payment of any other indebtedness for borrowed money or default in the observance or performance of any covenant or condition contained in any agreement or instrument evidencing, securing, or relating to any such indebtedness, which causes or permits the acceleration of the maturity thereof; or (d) Borrower becomes insolvent or bankrupt, is generally not paying its debts as they become due, or makes an assignment for the benefit of creditors, or a trustee or receiver is

appointed for Borrower or for the greater part of the properties of Borrower with the consent of Borrower, or if appointed without the consent of Borrower, such trustee or receiver is not discharged within 60 days, or bankruptcy, reorganization, liquidation or similar proceedings are instituted by or against Borrower under the laws of any jurisdiction, and if instituted against Borrower are consented to by it or remain undismissed for 60 days, or a writ or warrant of attachment or similar process shall be issued against a substantial part of the property of Borrower and shall not be released or bonded within 30 days after levy; or (e) Borrower shall be in default beyond any applicable grace period under any Loan Document; then, in any such event, and at any time thereafter, if any Event of Default shall then be continuing, Lender may declare the principal and the accrued interest in respect of the Loan under this Note to be, whereupon the Note shall become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are expressly waived by Borrower, provided that in the case of any event described in clause (d) of this Section with respect to Borrower, the principal of the Loan then outstanding, together with accrued interest thereon and all fees and other obligations of Borrower accrued under the Loan Documents, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by Borrower.

6. Collateral Security. This Note is secured by the Pledge Agreement.

7. Covenants. So long as any obligations are outstanding under this Note, Borrower hereby represents, covenants and agrees as follows:

(a) Borrower is the legal and beneficial owner of 4,476,389 shares (the “Shares”) of Class A Stock, par value, \$1.00 per share, of Ampal-American Israel Corporation, free and clear of any liens, security interests, pledges or other agreements or encumbrances. Borrower shall not sell, transfer, pledge or otherwise encumber it right, title and interest in any of the Shares.

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(b) Borrower shall keep Lender timely informed on the progress of the Project, and provide Lender with reports, analysis, financial and such other information as Lender may reasonably request.

(c) Borrower shall permit Lender, at reasonable times and with reasonable notice, to inspect the Project. Lender may, and Borrower shall assist Lender, in reviewing and inspecting any books, records, data or other information relating to the Project. Lender may make copies of any information and documents relating to the Project.

(d) Borrower shall not sell, dispose or otherwise transfer the Project or assets thereof, without the consent of the Lender, other than (i) up to a 35% equity interest in the Project to a single strategic partner, and (ii) up to a 2.5% equity interest in the Project to Riagro S.A.

(e) Borrower shall not merge with or into or consolidate with another entity; or otherwise dissolve or liquidate without the consent of the Lender.

8. Definitions. As used herein:

(a) “Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks in New York or Israel are required or permitted by law to remain closed.

(b) “Loan Documents” means each document, instrument or agreement executed pursuant hereto or in connection herewith, together with each other document, instrument or agreement made with or in favor of Lender, including this Note, the Option Agreement and the Pledge Agreement.

(c) “Pledge Agreement” means the Pledge Agreement, dated as of the date hereof, between Borrower and Lender, as the same, from time to time, may be amended, restated, replaced, extended, supplemented or otherwise modified.

(d) “LIBOR” means the rate per annum quoted in the London interbank market for dollar deposits having a term of thirty (30) days, as quoted from Bloomberg or a similar service as may be selected by Lender from time to time.

(e) “Financing Date” means the date on which (i) Borrower has obtained from unaffiliated third party debt financing for the Project and (ii) a unaffiliated third party holds an equity interest on the Project of no less than 25%.

9. Miscellaneous.

(a) Borrower agrees to pay on demand all of Lender’s costs and expenses, including reasonable counsel fees, in connection with the collection of any sums due to Lender in connection with the enforcement of its rights thereunder.

(b) No modification or waiver of any provision of this Note shall be effective unless such modification or waiver shall be in writing and signed by a duly authorized officer of Lender and Borrower, and the same shall then be effective only for the period and on the conditions and for the specific instances specified in such writing. No failure or delay by Lender in exercising any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any rights, power or privilege.

(c) Borrower hereby waives presentment, demand for payment, notice of protest, notice of dishonor, and any and all other notices or demands except as otherwise expressly provided for herein.

(d) This Note shall be construed in accordance with and governed by the internal laws of the State of New York.

(e) EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

(f) This Note shall be binding upon and inure to the benefit of Borrower, Lender, all future holders of this Note and their respective successors and assigns, except that Borrower may not assign or transfer any of its rights under this Note without the prior written consent of Lender. The term "Lender" as used herein shall be deemed to include Lender and its successors, endorsees and assigns. Lender shall have the unrestricted right at any time or from time to time, and without Borrower's consent, to assign all or any portion of its rights and obligations hereunder, and Borrower agrees that it shall execute, or cause to be executed, such documents, including without limitation, amendments to this Note and to any other documents, instruments and agreements executed in connection herewith as Lender shall deem necessary to effect the foregoing.

(g) This Note and the other Loan Documents are intended by the parties as the final, complete and exclusive statement of the transactions evidenced thereby. All prior or contemporaneous promises, agreements and understandings, whether oral or written, are deemed to be superceded by this Note and such other Loan Documents, and no party is relying on any promise, agreement or understanding not set forth in this Note or such other Loan Documents.

MERHAV (M.N.F) LTD.

By:

Name: Yosef A. Maiman

Title: Director

PLEDGE AGREEMENT

PLEDGE AGREEMENT, dated as of December 25, 2007, Merhav (m.n.f.) Limited a company established under the laws of Israel (“Pledgor”) and Ampal-American Israel Corporation, a New York Corporation (“Pledgee”).

WITNESSETH:

WHEREAS, concurrently with the execution and delivery of this Agreement, Pledgee has loaned the Pledgor \$20,000,000 (the “Loan”) pursuant to a Promissory Note, dated the date hereof, in the (the “Note”); and

WHEREAS, it is a condition precedent to the Loan that the Pledgor shall have made the pledge contemplated by this Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Pledgee to consummate the transactions contemplated by the Note, the parties hereto hereby agree as follows:

SECTION 1. Pledge. The Pledgor hereby pledges with, hypothecates to, delivers and transfers into the possession of the Pledgee, his assigns, heirs and legal representatives and grants to the Pledgee, its assigns, heirs and legal representatives a continuing first priority security interest in, the following (collectively the “Pledged Collateral”):

- (i) all Class A Stock, par value \$1.00 per share (the “Class A Stock”), of Ampal-American Israel Corporation (collectively, the “Pledged Shares”) currently owned or hereinafter acquired;
- (ii) the certificates representing the shares referred to in clauses (i) above; and
- (iii) subject to Section 6, all dividends, cash, instruments, options, rights and other property or proceeds, from time to time received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all of the shares referred to in clause (i) above.

SECTION 2. Security for Obligations. This Agreement secures and the Pledged Collateral is security for the indefeasible payment in full when due, whether at the stated maturity, by acceleration or otherwise, of the obligations of the Pledgor pursuant to the Note, and all obligations of the Pledgor now or hereafter existing under this Agreement (all such obligations of the Pledgor being referred to herein as the “Secured Obligations”).

SECTION 3. Delivery of Pledged Collateral. All certificates or instruments representing or evidencing the Pledged Collateral shall be delivered to and held by Pledgee and shall be accompanied by undated stock powers duly endorsed in blank and irrevocable proxies substantially in the form of Exhibit A hereto.

SECTION 4. Representations and Warranties. (a) The Pledgor represents and warrants as follows:

- (i) The Pledgor currently is the legal and beneficial owner of 4,476,389 shares of Class A Stock and such shares are all of the Class A Stock of Pledgee owned by Pledgor. There are no existing options, warrants, calls, commitments, rights (pre-emptive or otherwise), or subscriptions of any character whatsoever relating to any of the Pledged Shares except for those created or incurred by or at the direction of the Pledgee.
- (ii) The Pledgor is the direct and beneficial owner of the Pledged Collateral free and clear of any lien, claim or encumbrance other than the encumbrance granted to the Pledgee hereunder.
- (iii) This Agreement has been duly executed and delivered by the Pledgor and constitutes the legal, valid and binding obligation of the Pledgor, enforceable against the Pledgor in accordance with its terms.
- (iv) The pledge of the Pledged Collateral pursuant to this Agreement creates a valid and perfected first priority security interest in the Pledged Collateral securing the payment of the Secured Obligations, subject to no prior lien or to any agreement purporting to grant to any third party a security interest in the property or assets of the Pledgor which would include the Pledged Collateral.

- (b) The representations and warranties set forth in this Section 4 shall survive the execution and delivery of this Agreement.

SECTION 5. Further Assurances; Supplements. (a) The Pledgor agrees that at any time and from time to time, at the expense of the Pledgor, the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable in order to perfect and protect any security interest granted or purported to be granted hereby or to enable the Pledgee to exercise and enforce its rights and remedies hereunder with respect to any Pledged Collateral including, without limitation, the execution and delivery of UCC-1 financing statements for filing by and at the sole expense of Pledgee. Pledgor hereby authorizes Pledgee to file all UCC-1 financing statements or other instruments that Pledgee deems necessary or desirable to perfect the Pledgee and security interest created hereunder.

(b) The Pledgor will defend Pledgee's right, title, special property and security interest in and to the Pledged Collateral pledged by it hereunder and the encumbrances of the Pledgee thereon against the claim of any person and will maintain and preserve such Encumbrances so long as any Secured Obligations are outstanding.

(c) If the Pledgor shall become entitled to receive or shall receive any certificate or other instrument (including, without limitation, any certificate representing a stock dividend or distribution in connection with any reclassification, increase or reduction in capital), option or right, whether in addition to, in substitution of, or in exchange for any of the Pledged Collateral, the Pledgor shall accept any such certificate or other instrument as the Pledgee's agent, shall hold them in trust for the Pledgee, and shall deliver them forthwith to Pledgee in the exact form received, together with appropriate undated stock powers duly endorsed in blank and other instruments of transfer which may be necessary or desirable duly executed in blank, to be held by the Pledgee, subject to the terms hereof, as further collateral for the Secured Obligations and the same shall for all purposes be deemed to be Pledged Collateral hereunder.

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SECTION 6. Voting Rights; Dividends; Etc. (a) As long as no Default (as defined in Section 10) shall have occurred and be continuing and, in the case of Section 6(a)(i), as long as no notice thereof shall have been given by the Pledgee to the Pledgor):

(i) The Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Collateral pledged by it hereunder or any part thereof for any purpose not inconsistent with the terms of this Agreement or the Note; *provided, however*, that the Pledgor shall not exercise or refrain from exercising any such right if such action would have an adverse effect on the value of the Pledged Collateral or any part thereof.

(ii) The Pledgor shall be entitled to receive and retain any and all dividends paid in respect of the Pledged Collateral pledged by it hereunder, other than any and all

(A) dividends paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Pledged Collateral,

(B) dividends and other distributions paid or payable in cash in respect of any Pledged Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus, and

(C) cash paid, payable or otherwise distributed in redemption of, or in exchange for, any Pledged Collateral, all of which shall be, and all of which shall be forthwith delivered to the Pledgee to hold as Pledged Collateral and shall, if received by the Pledgor, be received in trust for the benefit of the Pledgee, be segregated from the other property or funds of the Pledgor, and be forthwith delivered to the Pledgee as Pledged Collateral in the same form as so received (with any necessary endorsement).

(iii) The Pledgee shall execute and deliver (or cause to be executed and delivered) to the Pledgor all such proxies and other instruments as the Pledgor may reasonably request for the purpose of enabling the Pledgor to exercise the voting and other rights which it is entitled to exercise pursuant to paragraph (i) above and to receive the dividends which it is authorized to receive and retain pursuant to paragraph (ii) above.

(b) Upon the occurrence and during the continuance of a Default:

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(i) All rights of the Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 6(a)(i) above shall cease upon notice from the Pledgee to the Pledgor, and all such rights shall thereupon become vested in the Pledgee who shall thereupon have the sole right to exercise such voting and other consensual rights and any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to the Pledged Collateral or any part thereof, and Pledgee may exercise such powers in such manner as the Pledgee may elect, but the Pledgee shall have no duty to exercise any of the aforesaid right, privileges or options and shall not be responsible for any failure to do so or delay in doing so.

(ii) All rights of the Pledgor to receive the dividends which it or he would otherwise be authorized to receive and retain pursuant

to Section 6(a)(ii) above shall cease, and all such rights shall thereupon become vested in the Pledgee who shall thereupon have the sole right to receive and hold as Pledged Collateral such dividends.

(iii) All dividends which are received by the Pledgor contrary to the provisions of paragraph (ii) of this Section 6(b) shall be received in trust for the benefit of the Pledgee, shall be segregated from other funds of the Pledgor and shall be forthwith paid over to the Pledgee as Pledged Collateral in the same form as so received (with any necessary endorsement).

(c) In order to permit the Pledgee to exercise the voting and other rights which it may be entitled to exercise pursuant to Section 6(b)(i) above, and to receive all dividends and distributions which it may be entitled to receive under Section 6(b)(ii) above, the Pledgor shall, if necessary, upon written notice of the Pledgee, from time to time execute and deliver to the Pledgee appropriate proxies, dividend payment orders and other instruments as the Pledgee may reasonably request including, without limitation, the irrevocable proxies in the form of Exhibit A hereto delivered by the Pledgor to the Pledgee on the date hereof.

SECTION 7. Transfers and Other Liens; Additional Shares or Warrants. (a) The Pledgor agrees that it will not (i) sell, assign or transfer or otherwise dispose of, or grant any option, warrant, subscription, call, warrants or other agreements with respect to, any of the Pledged Collateral, or (ii) create or permit to exist any encumbrance upon or with respect to any of the Pledged Collateral, except for the encumbrance in favor of the Pledgee under this Agreement.

(b) The Pledgor agrees that it will not cause, consent to or approve the issuance of any additional shares of any class of capital stock of the Companies, except in each instance to the Pledgor, with delivery thereof to be made to the Pledgee to be held as additional Pledged Collateral hereunder.

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SECTION 8. Power of Attorney. The Pledgor hereby authorizes the Pledgee and does hereby make, constitute and appoint the Pledgee and any officer or agent of the Pledgee, with full power of substitution, as the Pledgor's true and lawful attorney-in-fact, with power, in its own name and in the name of the Pledgor upon the occurrence and continuance of a Default, to endorse any notes, checks, drafts, money orders or other instruments of payments in respect of the Pledged Collateral that may come into possession of the Pledgee; to sign and endorse any drafts against debtors, assignments, verifications and notices in connection with accounts and other documents relating to the Pledged Collateral; to pay or discharge taxes, liens, security interests or other encumbrances at any time levied or places on or threatened against the Pledged Collateral; to demand, collect, receipt for, comprise, settle and sue for monies due in respect of the Pledged Collateral; and generally, to do, at the Pledgee's option each at the Pledgor's expense, at any time, or from time to time, all acts and things, which the Pledgee deems necessary to protect, preserve and realize upon the Pledged Collateral and Pledgee's security interest therein in order to effect the intent of this Agreement all as fully and effectually as the Pledgor might or would do; and the Pledgor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney shall be irrevocable for the term of this Agreement and thereafter as long as any of the Secured Obligations shall be outstanding.

SECTION 9. Pledgee May Perform. If the Pledgor fails to perform any agreement contained herein, the Pledgee may itself perform, or cause performance of, such agreement, and the expenses of the Pledgee incurred in connection therewith shall be payable by the Pledgor under Section 11 of this Agreement.

SECTION 10. Remedies Upon Default. For purposes of this Agreement, "Default" shall mean (i) a default in Pledgor's obligations under the Note, and (ii) any breach or default under the terms of this Agreement, which breach or default under this clause (ii) has not been cured within 30 days after receipt of written notice of the occurrence thereof. Upon the occurrence of an Event of Default and the delivery of the Pledged Collateral to the Pledgee pursuant to Section 10, in addition to any other rights and remedies provided for herein or available to him, the Seller may cause all or any part of the Pledged Collateral to be registered in the name of Pledgee or his designee and, in addition:

(a) The Pledgee may exercise in respect of the Pledged Collateral, all the rights and remedies of a secured party in default under the Uniform Commercial Code (the "Code") in effect in the State of New York at that time, and the Pledgee may also, without notice except as specified below, sell the Pledged Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Pledgee's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Pledgee may deem commercially reasonable and the Pledgee may be the purchaser of any or all of the Pledged Collateral so sold. Each purchaser at any such sale, including, without limitation, the Pledgee, shall hold the property sold, absolutely, free and clear from any claim or right of redemption of the Pledgor, whom specifically waives all rights of redemption, stay or appraisal which he may have or may have under any rule or law or statute now existing or hereafter adopted. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten business days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Pledgee shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. The Pledgee may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

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(b) The Pledgor recognizes that, by reason of certain requirements and prohibitions contained in the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities laws, the Pledgee may with respect to any sale of all or any part of the Pledged Collateral, limit purchasers to those who will agree, among other things, to acquire such securities for their own account, for investment, and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such sale may result in prices and other terms less favorable to the seller than if such sale were a public sale without such restrictions and, notwithstanding such circumstances, agrees that any such sale shall be deemed to have been made in a commercially reasonable manner. The Pledgee shall be under no obligation to delay the sale of any of the Pledged Shares for the period of time necessary to permit the Pledgor to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Pledgor would agree to do so.

(c) If the Pledgee determines to exercise its right to sell any or all of the Pledged Collateral, upon written request, the Pledgor shall, from time to time, furnish to the Pledgee all such information as the Pledgee may reasonably request in order to determine the number of shares and other instruments included in the Pledged Collateral which may be sold by the Pledgee as exempt transactions under the Securities Act and rules of the Securities and Exchange Commission thereunder, as the same are from time to time in effect.

(d) Any cash held by the Pledgee as Pledged Collateral and all cash proceeds received by the Pledgee in respect of any sale of, collection from, or other realization upon all or any part of the Pledged Collateral shall be applied by the Pledgee:

First, to the payment of the reasonable costs and expenses of such sale, including reasonable compensation to the Pledgee and its agents and counsel, and all reasonable expenses, liabilities and advances made or incurred by the Pledgee in connection therewith;

Next, to the Pledgee on account of the Secured Obligations in such order as the Pledgee may elect; and

Finally, after indefeasible payment in full of all Secured Obligations, to the payment to the Pledgor, or his assigns, heirs or legal representatives or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

SECTION 12. Expenses. The Pledgor will upon demand pay to the Pledgee the amount of any and all expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, which the Pledgee may incur in connection with the exercise or enforcement of any of the rights of the Pledgee hereunder with respect to its Pledged Collateral or the failure by the Pledgor to perform or observe any of the provisions hereof.

SECTION 13. Security Interest Absolute. All rights of the Pledgee and security interests hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional irrespective of any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations, or any other amendment or waiver of or any consent to any departure from the Note.

SECTION 14. Waiver. No delay on the Pledgee's part in exercising any power of sale, encumbrance, option or other right hereunder, and no notice or demand which may be given to or made upon the Pledgor by the Pledgee with respect to any power of sale, encumbrance, option or other right hereunder, shall constitute a waiver thereof, or limit or impair the Pledgee's right to take any action or to exercise any power of sale, encumbrance, option, or any other right hereunder, without notice or demand, or prejudice the Pledgee's rights hereunder or the rights of the Pledgee under the Note.

SECTION 15. Amendments, Etc. No amendment or waiver of any provision of this Agreement, nor consent to any departure by the Pledgor herefrom, shall in any event be effective unless the same shall be in writing and signed by the Pledgee, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 16. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing and deemed delivered (i) upon receipt if by hand, overnight courier or telecopy (provided a copy is mailed by certified mail, return receipt requested, postage prepaid) and (ii) three days after mailing by certified mail, return receipt requested, postage prepaid, to the Pledgor or to the Pledgee at the address provided for in the Note, or at such other address as shall be designated by such person in a written notice to each other person complying as to delivery with the terms of this Section.

SECTION 17. Continuing Security Interest. (a) This Agreement shall create a continuing first priority security interest in the Pledged Collateral, and shall (a) remain in full force and effect until indefeasible payment in full of the Secured Obligations; (b) continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Secured Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by the obligee of the Secured Obligations, all as though such payment or performance had not been made; (c) be binding upon the Pledgor, his assigns; heirs and legal representatives and (d) inure to the benefit of the Pledgee and his heirs, legal representatives, transferees and assigns.

(b) Upon the indefeasible payment in full of the Secured Obligations the security interest created by this Agreement shall be terminated an released without further action, and the Pledgor shall be entitled to the return, upon his request, of such of the Pledged Collateral pledged by him hereunder as shall not have been sold or otherwise applied pursuant to the terms hereof. Pledgee shall take such actions and execute such documents (at Pledgor's expense) reasonably requested by Pledgor to effectuate the release of the security interest created hereunder.

SECTION 18. Severability. If for any reason any provision or provisions hereof are determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or effect those portions of this Agreement which are valid.

SECTION 19. Section Titles. The Section titles contained in this Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

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SECTION 20. Waiver of Jury Trial. The parties hereto hereby agree to waive any right they may have to a jury trial in connection with any action, suit or proceeding arising out of or related in any way to this Agreement.

SECTION 21. Governing Law; Terms. This Agreement shall be governed by, and construed and enforced in accordance with, the internal laws of the State of New York.

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IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized, as of the date first above written.

[Release and further assurance]

PLEDGOR:

MERHAV (M.N.F.) LIMITED

By: _____

Name: Yosef A. Maiman

Title: Director

PLEDGEE:

AMPAL-AMERICAN ISRAEL CORPORATION

By: _____

Name: Irit Eluz, Yoram Firon

Title: CFO, VP

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

**SCHEDULE SETTING FORTH COMPUTATION
OF
EARNINGS PER SHARE OF CLASS A STOCK**

(Amounts in thousands, except per share data)

	Fiscal Year Ended December 31,		
	2007	2006	2005
(U.S. Dollars in thousands)			
Weighted average number of shares outstanding:			
4% Preferred	-	-	116
6-1/2% Preferred	-	-	522
Class A	51,362	24,109	19,967
Basic and diluted EPS:			
Loss income from continuing operations ⁽¹⁾	(13,578)	(6,027)	(5,916)
Income (loss) from discontinued operations, net of tax	21,344	(1,060)	(42)
Net (Loss) income	\$ 7,766	\$ (7,087)	\$ (5,958)
Earnings per Class A share:			
Loss income from continuing operations	\$ (0.26)	(0.36)	(0.31)
Income (loss) from discontinued operations, net of tax	0.42	(0.04)	-
	0.16	(0.40)	(0.31)
Shares used in calculation	51,362	24,109	19,967

- (1) After deduction of preferred stock dividends (in thousands) of \$2,438 and \$191 for the years 2006 and 2005, respectively. In 2006 all of the preferred stock were converted to class A shares.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

**SCHEDULE SETTING FORTH THE COMPUTATION OF RATIOS OF CONSOLIDATED
EARNINGS TO FIXED CHARGES**
(Amounts in thousands, except ratios)

	Fiscal Year Ended December 31,		
	2007	2006	2005
(U.S. Dollars in thousands)			
Earnings:			
Income (loss) from continuing operations (including dividends from less than 50% owned affiliates) before income taxes, equity in earnings of affiliates, and minority interests	\$ (15,919)	\$ (1,028)	\$ (8,517)
Fixed charges	10,122	5,154	5,257
Earnings (insufficient earning to cover fixed charges)	\$ (5,289)	\$ 4,126	\$ (3,260)
Fixed charges:			
Interest	\$ 9,969	\$ 5,134	\$ 5,257
Amortization of debentures expenses	153	20	--
Fixed charges	\$ 10,122	\$ 5,154	\$ 5,257
Ratio of earnings (deficit) to fixed charges	*	0.80:1	*

* Due to the loss in 2007 and 2005, the ratio coverage was less than 1:1. The registrant must generate additional earnings of \$15,919 thousands and \$ 8,517 thousands in 2007 and 2005, respectively, to achieve a coverage ratio of 1:1.

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

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

Global Wind Energy Israel Ltd., an Israeli company

Global wind Energy Cyprus Limited, a Cyprus company

CL-AM Argitheia Public Limited Energy Company, a Greek 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

Eurochem Maritime 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 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

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

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8, (File No. 333-61895, File No. 333-55970) and Form S-3, (File No. 333-140968, File No. 333-140969 and, File No. 333-140974) of Ampal – American Israel Corporation of our report dated March 17, 2008 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/S/ Kesselman & Kesselman CPAs (ISR) A member of Pricewaterhouse Coopers International Limited

Tel Aviv, Israel
17 March, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3, (File No. 333-140968 , File No. 333-140969 and , File No. 333-140974) of our reports dated February 6, 2007 and January 28, 2008 relating to the financial statements of BAY HEART Ltd which appears in this Form 10-K of Ampal – American Israel Corporation .

Brightman Almagor & Co.
Certified Public Accountants
Member firm of Deloitte Touche Tohmatsu

Haifa, Israel, March 13, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895 and File No. 333-55970) and Forms S-3,(File No. 333-140968 , File No. 333-140969 and , File No. 333-140974) of our report dated March 5, 2007 relating to the financial statements of Carmel Container Systems Ltd.'s 2006 annual report, which appears in this Form 10-K for the year ended December 31, 2007, of Ampal – American Israel Corporation.

Kost Forer Gabbay & Kasierer
Member of Ernst & Young Global

Haifa ,Israel
March 13, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3,(File No. 333-140968 , File No. 333-140969 and , File No. 333-140974) of our report dated March 6, 2006 relating to the financial statements of C.D. Packaging Systems's 2005 Annual Report to Shareholders, which appears in this Form 10-K of Ampal – American Israel Corporation .

/S/ Kesselman & Kesselman CPAs (ISR)
A member of Pricewaterhouse Coopers International Limited

Haifa, Israel
March 13, 2008

Rotterdam, 13 March 2008

Consent Chem-Tankers C.V.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3, (File No. 333-140968, File No. 333-140969 and, File No. 333-140974) of Ampal – American Israel Corporation of our report dated February 25, 2008 relating to the financial statements for consolidation purposes, which appears in this Form 10-K.

Yours faithfully,

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.
Corporate Assurance Services

A.G. de Nijs RA

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3, (File No. 333-140968, File No. 333-1406969 and File No. 333-140974) of our report dated March 22, 2007 relating to the financial statements of Coral World International, Ltd. which appears in this Form 10-K of Ampal-American Israel Corporation.

Fahn Kanne & Co. CPAs (ISR)

Tel-Aviv, Israel
March 13, 2008

Rotterdam, 13 March 2008

Consent Eurochem Maritime B.V.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3, (File No. 333-140968, File No. 333-140969 and, File No. 333-140974) of Ampal – American Israel Corporation of our report dated February 27, 2008 relating to the financial statements for consolidation purposes, which appears in this Form 10-K.

Yours faithfully,

MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.
Corporate Assurance Services

A.G. de Nijs RA

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3, (File No. 333- 140968, File No. 333-140969 and, File No. 333-140974) of our report dated February 26, 2008, relating to the financial statements of Hod Hasharon Sport Center Limited which appears in this Form 10-K of Ampal – American Israel Corporation.

KPMG Somekh Chaikin – Tel Aviv

March 13, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3, (File No. 333- 140968, File No. 333-140969 and, File No. 333-140974) of our report dated February 26, 2008, relating to the financial statements of Hod Hasharon Sport Center (1992) Limited Partnership which appears in this Form 10-K of Ampal – American Israel Corporation.

KPMG Somekh Chaikin – Tel Aviv

March 13, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3,(File No. 333-140968 , File No. 333-140969 and , File No. 333-140974) of our report dated March 29, 2007 relating to the financial statements of Ophir Holdings Ltd's 2006 Annual report to shareholders, which appears in this Form 10-K of Ampal – American Israel Corporation .

Kesselman & Kesselman CPAs (ISR) A member of Pricewaterhouse Coopers International Limited

Tel-Aviv, Israel
13 March , 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8, (File No. 333-61895, File No. 333-55970) and Forms S-3,(File No. 333-140968 , File No. 333-140969 and , File No. 333-140974) of our report dated March 27, 2006 relating to the financial statements of Ophirtech Ltd's 2005 Annual report to shareholders, which appears in this Form 10-K of Ampal – American Israel Corporation .

Kesselman & Kesselman CPAs (ISR) A member of Pricewaterhouse Coopers International Limited

Tel-Aviv, Israel
13 March , 2008

**Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act**

I, Yosef A. Maiman, certify that:

1. I have reviewed this annual report on Form 10-K of Ampal – American Israel Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 17, 2008

By: /s/ Yosef A. Maiman

Yosef A. Maiman
President and Chief Executive Officer

**Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act**

I, Irit Eluz, certify that:

1. I have reviewed this annual report on Form 10-K of Ampal – American Israel Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 17, 2008

By: /s/ Irit Eluz

Irit Eluz
Chief Financial Officer and Senior Vice
President - Finance and Treasurer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Ampal – American Israel Corporation (the “Company”) for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Yosef A. Maiman, President and Chief Executive Officer of the Company, certifies, to the best of his knowledge, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

March 17, 2008

By: /s/ Yosef A. Maiman

Yosef A. Maiman
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Ampal – American Israel Corporation (the “Company”) for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Irit Eluz, President and Chief Executive Officer of the Company, certifies, to the best of her knowledge, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

March 17, 2008

By: /s/ Irit Eluz

Irit Eluz, Chief Financial Officer and Senior
Vice President - Finance and Treasurer