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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _______ to _______

Commission file number 0-538

AMPAL-AMERICAN ISRAEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

New York (State or Other Jurisdiction of Incorporation or Organization)	**13-0435685** (I.R.S. Employer Identification No.)
555 Madison Avenue **New York, NY, USA** (Address of Principal Executive Offices)	**10022** (Zip Code)

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

Title of Each Class	***Name of Each Exchange on which Registered***
Class A Stock, par value $1.00 per share	The NASDAQ Global Market

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 o No x

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 o No x

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

Yes x No o

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. o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

Yes o No x

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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

PART I

ITEM 1. BUSINESS

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

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

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

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

Significant Developments During 2008

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

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

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

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

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

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

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

Sugarcane Ethanol Production Project

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

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

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

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

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

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

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

East Mediterranean Gas Company

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

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

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

Offering of Series B Debentures

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

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

Sale of Hod Hasharon Sport Center (1992) Limited Partnership

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

Stock and Debenture Repurchase Program

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

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

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

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

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

Repricing of Outstanding Stock Options

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

Investee Companies by Industry Segment

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

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

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

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

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

Chemicals

GADOT CHEMICAL TANKERS AND TERMINALS LTD. (GADOT)

General

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

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

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

Gadot s operations are divided into three main service sectors:

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

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

Logistical services in Israel and Europe;

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

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

Importing, Marketing and Sale of Chemicals and Other Raw Materials

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

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

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

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

Sale and marketing of inorganic chemicals.

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

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

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

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

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

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

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

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

decades of experience in the field;

stable, long term relationships with existing customers;

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

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

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

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

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

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

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

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

Sales volume during 2008 increased compared to the 2007 volume.

Sale of products with increased margins.

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

Shipping

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

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

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

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

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

- managing a modern fleet of ships capable of transporting a variety of chemicals with a variety of different capacities in order to meet customer needs and strict regulation;
- availability of ships on the various shipping lines;
- professional operation of cargo, in order to increase efficiency and safety;
- having a strategy of buying or leasing ships at low prices, while entering into long-term shipping contracts with customers at high prices, in order to minimize exposure to changes in the shipping market and to increase profitability;
- creating and maintaining strategic relationships with key customers; and
- Cooperation with other companies operating in the field, in order to increase the amount of ships working the same line or market and to penetrate new markets.

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

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

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

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

Agency Services for Shipping Companies and Docked Ships

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

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

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

ISO-Tank Transportation

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

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

Logistical Operations in Europe

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

The services provided by Gadot in this sector include:

- Delivery import and export of goods to and from Europe to other destinations around the world, including contracting with shipping companies, dealing with tax authorities, port release and documentation.
- Storage storage of customer s materials in storage facilities, often under specialized conditions (such as temperature control, etc.).
- Transport complete door-to-door service, from arrival of goods in port, storage, packaging and delivery to final destination.
- Packaging packaging of dry and liquid chemicals in barrels, containers or sacks.

Gadot also provides one customer with paint mixing services.

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

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

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

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

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

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

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

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

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

Logistical Operations in Israel

The logistical services provided by Gadot in Israel include:

- land transport;
- storage, loading and off-loading of materials;
- ISO-tank transportation;

Land Transport

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

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

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

Storage, Loading and Off-Loading of Materials

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

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

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

Energy

EAST MEDITERRANEAN GAS COMPANY S.A.E

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

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

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

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

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

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

Global Wind Energy Ltd. (GWE)

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

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

Real Estate

BAY HEART LTD. (BAY HEART)

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

Leisure-Time

COUNTRY CLUB KFAR SABA LTD. (KFAR SABA)

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

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

EMPLOYEES

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

As of December 31, 2008:

Ampal (Israel) Ltd. had 15 employees; and

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

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

Relations between the Company and its employees are satisfactory.

CONDITIONS IN ISRAEL

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

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

CERTAIN UNITED STATES AND ISRAELI REGULATORY MATTERS

SEC Exemptive Order

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

TAX INFORMATION

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

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

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

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

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

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

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

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

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

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

results for tax purposes were measured in real terms.

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

United States Federal Taxation of Ampal

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

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

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

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

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

Available information

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

FORWARD-LOOKING STATEMENTS

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

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

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in taxation requirements could affect our financial results.

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

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

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

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

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

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

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

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

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

We do not publish the value of our assets.

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

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

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

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

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

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

Our Class A Stock may not be liquid.

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

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

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

Risks Associated with Gadot s Business

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

Claims Against Subsidiaries and Affiliates

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

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

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

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

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

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

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

For	Against	Abstained
45,347,246	130,441	35,603

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF CLASS A STOCK

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

	High	Low
2008:		

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

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

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

VOTING RIGHTS

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

DIVIDEND POLICY

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

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

ISSUER PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

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

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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [(1)]	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [(1)]

	(a)		(b)	(c)		(d)
Month #1 (October 1st to October 31st)	29,882(2)	$	3.008(2)	-		-
Month #2 (November 1st to November 30th)	-		-	-		-
Month #3 (December 1st to December 31st)	1,366,415	$	0.787	1,366,415	$	18,900,000
Total	1,396,297	$	0.835	1,366,415	$	18,900,000

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

	Fiscal year ended December 31,				
Notes, loans and debentures payable	$ 596,456	$ 403,367	$ 104,163	$ 50,366	$ 120,796

(1) Results have been restated for the discontinued operations of our real estate operations, which was sold in August 2007.

(2) Computation for the years 2006, 2005 and 2004 is based on net income (loss) after deduction of preferred stock dividends (in thousands) of $2,438, $191 and $200, respectively for those years. On July 31, 2006, all of the preferred stock was converted into Class A Stock.

(3) In 2006, the Company changed the method by which it accounts for share-based compensation by adopting SFAS 123R, which resulted in expenses of $1,365, $783 and $720 thousand for the years 2008, 2007 and 2006, respectively and impacted the EPS by $ (0.03), $(0.015) and $(0.03) respectively.

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

OVERVIEW

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Business combinations

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

Investment in EMG and other cost basis investments

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

Marketable Securities

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

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

Long- lived assets

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

Accounting for Income Taxes

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

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

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

Employee Stock-Based Compensation

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

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

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

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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 157 Fair Value Measurements

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

SFAS No. 141R Business Combinations

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

SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements

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

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities

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

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

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

RESULTS OF OPERATIONS

Fiscal year ended December 31, 2008 compared to fiscal year ended December 31, 2007:

General

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

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

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

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

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

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

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

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

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

Result of Operations Analyzed by Segments

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

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

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

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

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

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

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

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

General

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

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

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

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

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

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

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

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

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

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

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

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

Result of Operations Analyzed by Segments

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

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

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

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SELECTED QUARTERLY FINANCIAL DATA

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(U.S. dollars in thousands, except per share data)			
	Unaudited			
Fiscal Year Ended December 31, 2008				
Revenues	$ 128,729	$ 153,904	$ 143,937	$ 130,067
Net interest expense	3,777	8,998	16,864	6,982
Net (loss) income	(10,275)	(17,370)	(12,642)	23,576
Basic EPS:				
Earnings (Loss) per Class A share	(0.18)	(0.3)	(0.22)	0.41
Diluted EPS:				
Earnings (Loss) per Class A share	(0.18)	(0.3)	(0.22)	0.39

	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)

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

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

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

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

Cash flows from operating activities

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

Cash flows from investing activities

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

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

Cash flows from financing activities

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

Investments

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

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

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

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

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

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

2. Option Agreement for Sugarcane Ethanol Project in Colombia

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

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

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

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

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

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

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

3. Additional investment of $2.1 million in GWE.

4. A loan to Bay Heart of $8.6 million, for a shopping mall in Haifa, Israel.

5. On September 22, 2008, Gadot purchased from Milchen Communications Ltd. (Milchen) a segment of its business engaged in operating a sales agency in Israel representing well-known manufacturers, selling a wide range of products, including chemicals and polymers and other materials for the printing and press industry. Gadot purchased this segment of activity for approximately $1.3 million, out of which approximately $0.4 million were paid for material inventory and approximately $0.9 million for goodwill.

b) In 2008, Ampal made the following dispositions:

1. During 2008, the Company received proceeds in the total amount of $0.2 million from the sales of certain investments by FIMI.

2. On March 2008, the Company received $0.3 million from the sale of certain assets by PSINet Europe, one of the holdings of TP.

3. On August 7, 2008, the Company signed an agreement for the sale of its 50% holdings of Country Club Hod Hasharon Sport Center for a consideration of 1.9 million.

4. During 2008, the Company received $0.6 million from the sale of certain assets by Ophir Holdigns Ltd.

Debt

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. $8.1 million guarantee on indebtedness incurred by Bay Heart in connection with the development of its property. Bay Heart recorded losses in 2008. There can be no guarantee that Bay Heart will become profitable or that it will generate sufficient cash to repay its outstanding indebtedness without relying on the Company s guarantee.

2. $1.1 million guarantee to Galha as described in Item 3 of this Report.

3. $58.2 million guarantees issued by Gadot for outstanding loans.

Off-Balance Sheet Arrangements

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

Foreign Currency Contracts

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

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

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

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

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

CHANGES IN SHAREHOLDERS EQUITY

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

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS AND SENSITIVITY ANALYSIS

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

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

Interest Rate Risks

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

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

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

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

Foreign Currency Exchange Rate Sensitivity Analysis

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

Equity Price Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management s Annual Report on Internal Control Over Financial Reporting

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

Attestation Report of the Registered Public Accounting Firm

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

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

MANAGEMENT

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

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

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

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

(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 relationship between any of Ampal s directors and executive officers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AUDIT COMMITTEE

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

CODE OF ETHICS

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

CODE OF CONDUCT

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

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Objectives of Compensation Program

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

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

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

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

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

Responsibilities

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

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

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

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

Elements of Compensation

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

Base Salary

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

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

Annual Cash Incentive Bonus Compensation

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

Long-Term Equity Incentive Compensation

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

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

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

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

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, 2008

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

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards (10)	All Other Compensation (7)	Total (8)
		$	$	$	$	$	$
Yosef A. Maiman (1) (9)							
Chairman of the Board, President and CEO	2008	1,028,812	979,484	-	269,211	242,985	2,386,859
	2007	890,344	1,092,044	-	147,903	24,272	2,154,563
	2006	632,144	984,627	-	68,947	30,605(11)	1,716,323
Irit Eluz (2) (8)							
CFO - SVP							
Finance & Treasurer	2008	342,937	824,829	-	221,140	156,107	1,434,299
	2007	304,989	832,033	-	132,510	105,368	1,374,900
	2006	263,848	673,692	-	152,664	152,928	1,243,133
Yoram Firon (3) (8)							
Secretary, Vice							
President Investments	2008	239,348	77,328	-	154,468	122,947	514,554
	2007	227,470	182,007	-	89,918	86,153	585,548
	2006	206,194	173,964	-	107,504	80,235	567,897
Amit Mantsur (4)							
Vice President Investments	2008	170,963	61,862				