

AMPAL-AMERICAN ISRAEL CORP

FORM 10-Q (Quarterly Report)

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Sector	Financial
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number 0-538

AMPAL-AMERICAN ISRAEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

New York

13-0435685

(State or Other Jurisdiction of
Incorporation of Organization)

(I.R.S. Employer)
Identification Number

111 Arlozorov Street, Tel Aviv, Israel

62098

(Address of Principal Executive Offices)

(Zip code)

Registrant's Telephone Number, Including Area Code (866) 447-8636

Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report.

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

The number of shares outstanding of the issuer's Class A Stock, its only authorized common stock, is 51,470,698 (as of August 1, 2007).

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ITEM 1. FINANCIAL STATEMENTS
AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS AS OF	June 30, 2007	December 31, 2006
(U.S. Dollars in thousands)	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 34,927	\$ 36,733
Deposits receivable	8,295	10,207
Investments	275,873	265,616
Real estate property, less accumulated depreciation of \$14,838 and \$14,003	69,781	69,319
Other assets	22,520	19,808
Total Assets	\$ 411,396	\$ 401,683

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY AS OF	June 30, 2007	December 31, 2006
(U.S. Dollars in thousands, except share amounts)	(Unaudited)	(Audited)
LIABILITIES		
Notes and loans payable	\$ 56,061	\$ 44,778
Convertible note to related party	20,000	20,000
Debentures	58,894	59,172
Deposits from tenants	53,711	54,979
Accounts payable, accrued expense and others	13,178	10,964
Total Liabilities	201,844	189,893
Minority interests, net	2,796	2,977
Class A Stock; \$1 par value; authorized 100,000,000 and 60,000,000 shares; issued 56,012,975 and 46,328,429 shares; outstanding 50,438,186 and 40,753,640 shares	56,013	46,328
Receipt on account of unallocated shares	-	40,000
Additional paid-in capital	162,741	126,945
Warrants	226	308
Retained earnings	31,953	40,165
Accumulated other comprehensive loss	(16,303)	(17,059)
Treasury Stock, at cost	(27,874)	(27,874)
Total shareholders' equity	206,756	208,813
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 411,396	\$ 401,683

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30,

	2007	2006
(U.S. Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES		
Real estate income	\$ 4,967	\$ 4,704
Equity in earnings (loss) of affiliates	(342)	1,483
Realized gains on investments	227	5,377
Realized and unrealized gains (loss) on marketable securities	(245)	703
Interest income	985	507
Translation gain	579	269
Other income	1,146	1,293
Total revenues	7,317	14,336
EXPENSES		
Real estate expenses	5,169	4,414
Realized loss on investments	-	1,016
Loss from impairment of investment	484	-
Interest expenses	4,681	1,696
Other (mainly general and administrative)	4,362	4,750
Total expenses	14,696	11,876
Income (loss) before income taxes	(7,379)	2,460
Provision for income taxes	941	1,664
Income (loss) after income tax	(8,320)	796
Minority interests, net	(108)	(10)
Net income (loss) for the period	\$ (8,212)	\$ 806
Basic EPS:		
Earning (loss) per Class A Share	\$ (0.17)	\$ 0.03
Shares used in calculation (in thousands)	47,574	20,701
Diluted EPS:		
Earning (loss) per Class A Share	\$ (0.17)	\$ 0.04
Shares used in calculation (in thousands)	47,574	22,548

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30,

	2007	2006
(U.S. Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES		
Real estate income	\$ 2,531	\$ 2,389
Equity in earnings (loss) of affiliates	(325)	586
Realized gains on investments	190	4,390
Realized and unrealized gains (loss) on marketable securities	(246)	164
Interest income	539	273
Translation gain	1,816	553
Other income	524	717
Total revenues	5,029	9,072
EXPENSES		
Real estate expenses	2,608	2,241
Realized loss on investments	-	1,016
Interest expenses	2,647	681
Other (mainly general and administrative)	2,393	2,497
Total expenses	7,648	6,435
Income (loss) before income taxes	(2,619)	2,637
Provision for income taxes	618	1,271
Income (loss) after income tax	(3,237)	1,366
Minority interests, net	(74)	(15)
Net Income (loss) for the period	\$ (3,163)	\$ 1,381
Basic EPS:		
Earning (loss) per Class A Share	\$ (0.06)	\$ 0.06
Shares used in calculation (in thousands)	49,377	20,731
Diluted EPS:		
Earning (loss) per Class A Share	\$ (0.06)	\$ 0.06
Shares used in calculation (in thousands)	49,377	22,628

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

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

SIX MONTHS ENDED JUNE 30,

	2007	2006
(U.S. Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net Income (loss) for the period	\$ (8,212)	\$ 806
Adjustments to reconcile net (income)loss for the period to net cash from operating activities:		
Equity in loss (earnings) of affiliates	342	(1,483)
Realized and unrealized gains on investments, net	18	(5,064)
Depreciation expense	947	1,015
Amortization income from tenants deposits	(783)	(838)
Non cash stock based compensation	367	432
Loss from impairment of investment	484	-
Translation gain	(579)	(269)
Minority interests	(108)	(10)
Decrease in other assets	(1,306)	(3,063)
Increase in accounts payable, accrued expenses and others	1,779	2,428
Investments made in trading securities	(9,484)	(49,994)
Proceeds from sale of trading securities	1,108	71,809
Dividends received from affiliates	63	127
	<hr/>	<hr/>
Net cash provided(used in) by operating activities	(15,364)	15,896
	<hr/>	<hr/>
Cash flows from investing activities:		
Deposit collected	1,999	-
Investments made	(7,340)	(1,239)
Proceeds from sale of investments	5,035	23,009
Capital improvements	(1,099)	(424)
	<hr/>	<hr/>
Net cash provided (used in) by investing activities	(1,405)	21,346
	<hr/>	<hr/>

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

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

SIX MONTHS ENDED JUNE 30,

	2007	2006
(U.S. Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Notes and loans payable received	\$ 37,231	\$ 690
Notes and loans payable repaid	(26,587)	(5,780)
Contribution to partnership by minority	74	-
Proceeds from exercise of stock option and warrants	5,033	82
Net cash provided by (used in) financing activities	<u>15,751</u>	<u>(5,008)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(788)</u>	<u>594</u>
Net increase (decrease) in cash and cash equivalents	(1,806)	32,828
Cash and cash equivalents at beginning of Period	<u>36,733</u>	<u>24,314</u>
Cash and cash equivalents at end of period	<u>\$ 34,927</u>	<u>\$ 57,142</u>
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Consideration for sale of an investment recorded as other assets in previous period	<u>\$ -</u>	<u>\$ 450</u>
Dividend from an equity investment recorded as payable accounts in previous period	<u>\$ -</u>	<u>\$ 5,060</u>

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(U.S. Dollars in thousands)

	Class A stock		Receipt on account of unallocated shares	Additional paid in capital	Warrants	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholder equity
	Number of shares*	Amount							
BALANCE AT JANUARY 1, 2007	46,328	46,328	40,000	126,945	308	40,165	(17,059)	(27,874)	208,813
CHANGES DURING 2007:									
Net loss for the period						(8,212)			(8,212)
Foreign currency translation adjustments							756		756
Total comprehensive loss									(7,456)
Adjustment upon adoption of FIN 48						(2,000)			(2,000)
Change in deferred tax asset relating to adoption of FIN 48						2,000			2,000
Shares issued for investment made	8,603	8,603	(40,000)	31,397					--
Compensation expense recognized under SFAS 123R				366					366
Issuance of shares for exercise of Warrants	1,082	1,082		4,033	(82)				5,033
BALANCE AT JUNE 30, 2007	56,013	56,013	--	162,741	226	31,953	(16,303)	(27,874)	206,756

*In thousands

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(U.S. Dollars in thousands)

	Class A stock		4% Preferred stock		6.5% Preferred stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total sharehold equity
	Number of shares*	Amount	Number of shares	Amount	Number of shares	Amount					
BALANCE AT JANUARY 1, 2006	25,827	25,827	114	571	641	3,207	58,252	51,223	(19,518)	(30,693)	88,869
CHANGES DURING 2006:											
Net gain for the period								806			806
Foreign currency translation adjustments									1,824		1,824
Unrealized gain on marketable securities									77		77
Total comprehensive loss											2,707
Conversion of 3,721 4% preferred stock and 28,333 6.5% preferred stock into Class A stock	103	103	(4)	(19)	(28)	(142)	58				--
Compensation expense recognized under SFAS 123R							432				432
Reissuance of 26,250 treasury stock for exercise of stock option								(49)		131	82
BALANCE AT JUNE 30, 2006	25,930	25,930	110	552	613	3,065	58,742	51,980	(17,617)	(30,562)	92,090

*In thousands

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

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

(Unaudited)

1. As used in these financial statements, the term the “Company” refers to Ampal-American Israel Corporation (“Ampal”) and its consolidated subsidiaries.
2. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”), in the United States of America, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. You should read these interim condensed consolidated financial statements in conjunction with the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission.

Reference should be made to the Company’s consolidated financial statements for the year ended December 31, 2006 for a description of the critical accounting policies. Also, reference should be made to the notes to the Company’s December 31, 2006 consolidated financial statements for additional information regarding the Company’s consolidated financial condition, results of operations and cash flows.

Accounting Change – Effective January 1, 2007 the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109) (“FIN 48”). Refer to Note 6 for additional information regarding the Company’s unrecognized tax benefits.

3. 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). The Company is currently evaluating the impact, if any, the adoption of SFAS 157 will have on its financial statements.

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

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

4. Cash and cash equivalents

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

Cash equal to \$12.0 million has been placed as a compensating balance for various loans provided to the Company and would therefore be unavailable if the Company wished to pledge them in order to provide an additional source of cash.

5. East Mediterranean Gas Company

On December 1, 2005, the Company, through Merhav Ampal Energy, Ltd. (“MAE”), a wholly-owned subsidiary of the Company, acquired a 2% interest in East Mediterranean Gas Co. S.A.E., an Egyptian joint stock company (“EMG”) from Merhav M.N.F. Ltd. (“Merhav”). The Company paid \$30.0 million in cash, representing the fair value of the interest purchased at the time this transaction closed.

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

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

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

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

The cost of the investment was approximately \$128.3 million, of which approximately \$68.3 million was paid in cash, \$40 million was paid in 8,602,151 shares of the Company's Class A Stock and the balance was satisfied by the issuance of a promissory note in the principal amount of \$20 million (the "Convertible Promissory Note"), which, at the option of Merhav, will be paid in cash, additional shares of the Company Class A Stock (based on a price per share of \$4.65), or a combination thereof. As permitted under the stock purchase agreement, Merhav assigned its right to the 8,602,151 Shares to De Majorca Holdings Limited as part of Merhav's restructuring process. The Convertible Promissory Note bears interest at 6 months LIBOR (5.375%) and matures on September 20, 2007 or upon demand by Merhav. Ampal may pre-pay the Convertible Promissory Note at any time in whole or in part. The maximum number of shares that can be issued in this transaction (including accrued interest payable through the maturity date on the Convertible Promissory Note) is 13,078,540 shares of Class A Stock. As a result of this transaction, Ampal beneficially owns 12.5% of the total outstanding shares of EMG. The issuance of the 8,602,151 shares and the shares underlying the Convertible Promissory Note received the approval of the shareholders of the Company on February 7, 2007, as required by the marketplace rules of the NASDAQ Global Market. Due to the agreement of the controlling shareholder group to vote in favor of the issuance of these shares to Merhav as of the closing date of the EMG transaction (which ensured that the proposal would be adopted by the requisite shareholders vote on February 7, 2007) the Company, as of December 31, 2006, classified for accounting purposes the sale of these shares as part of the exchange with Merhav on December 21, 2006 and recognized the \$40 million with shareholders' equity as "Receipt on account of unallocated shares".

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

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

On June 6, 2007, the Company, through MAE, entered into an agreement with Merhav and certain Israeli institutional investors (the "Investors") providing for the establishment of a joint venture to purchase and hold shares of EMG. The terms of the transaction provide that the joint venture will purchase, with funds provided by the Investors, a 1.8% interest in EMG from Merhav for a purchase price of approximately \$40 million. The price being paid is the same purchase price (on a per share basis) paid by MAE in its last purchase of beneficial interests in EMG in December 2006. The Investors will have a 50% interest in the joint venture for their \$40 million contribution. MAE will contribute a 1.8% interest in EMG in exchange for the remaining 50% interest in the joint venture. The transaction is subject to customary closing conditions and is expected to close in the third quarter of 2007.

The joint venture entity will be a newly formed Israeli limited partnership, “Merhav Ampal Energy Holdings, LP” (the “Partnership”), whose general partner will be a newly formed Israeli company equally owned by Ampal and the Israeli Infrastructure Fund (“IIF”), one of the Investors. MAE and the Investors will be limited partners. The general partner shall manage the partnership through a board of directors consisting of 4 directors, two of whom will be appointed by Ampal and two of whom shall be appointed by IIF. If a deadlock on the board of directors of the general partner occurs in connection with certain major decisions relating to EMG (such as changes in EMG’s organizational documents or dividend policy, the sale, merger or liquidation of EMG, capital calls by EMG, approval of material and related party agreements, new issuances by EMG and the exercise of preemptive rights), the general partner will cause the shares of EMG held by the Partnership to be voted pro rata in accordance with the wishes of Ampal and IIF.

On June 28, 2007, Ampal and the Investors agreed to include additional Israeli institutional investors (the “New Investors”) in the previously announced joint venture to purchase and hold shares in EMG.

The joint venture will use the additional funds provided by the New Investors to purchase an additional 2.6% interest in EMG from Merhav for a purchase price of approximately \$57 million, which is the same purchase price (on a per share basis) paid by MAE for its last purchase of beneficial ownership in EMG shares in December 2006. MAE will contribute an additional 2.6% interest in EMG above the 1.8% interest in EMG it has already agreed to contribute. At closing, the joint venture will hold a total of 8.8% of the outstanding shares of EMG. Ampal’s contribution is being valued at the same price per EMG share as the joint venture’s purchase from Merhav. Following the investment, Ampal will hold a 50% interest in the joint venture and the Investors will have a 50% interest in the joint venture for their aggregate contribution of approximately \$97 million. This transaction (including the original agreement to form the joint venture) is subject to customary closing conditions. As of June 30, 2007 the closing conditions were not met.

6. Income Tax

In July 2006, the Financial Accounting Standards Board (“FASB”) released FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”) which became effective for and was adopted by the Company as of January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income taxes and prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

As a result of the adoption by the Company of FIN 48, on January 1, 2007, the Company recognized, as a cumulative effect of change in accounting principle, a \$2 million increase in its liability for unrecognized tax benefits, which was accounted for as a decrease in the January 1, 2007 balance of retained earnings. Furthermore, the Company recognized an increase in deferred tax assets of approximately \$2.0 million, which was accounted for as an increase in the January 1, 2007 balance of retained earnings. The Company and its subsidiaries have not received tax assessments for the years 2003 and thereafter.

7. Segment information presented below, results primarily from operations in Israel.

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

The energy segment consists of the investment in EMG, an Egyptian joint stock company, which holds the right to supply natural gas to Israel through a pipeline to be constructed from Egypt to Israel.

The real estate rental segment consists of rental property owned in Israel and the United States and leased to unrelated parties, and operations of Am-Hal Ltd. ("Am-Hal"), a wholly-owned subsidiary which owns and operates a chain of senior citizen facilities located in Israel. On August 5, 2007, the Company sold all of interest in Am-Hal.

The leisure-time segment consists of Coral World International Limited (marine parks located around the world) and an affiliate Country Club Hod Hasharon Sport Center and Kfar Saba, the Company's 51%-owned subsidiary, all located in Israel. During June 2006, the Company sold all of its interest in Coral World International Limited.

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

SIX MONTHS ENDED JUNE 30,	2007	2006
(Dollars in thousands)		
<u>Revenues:</u>		
Finance	\$ 1,580	\$ 3,034
Real Estate	4,967	4,704
Leisure-time	1,146	5,148
Intercompany adjustments	(34)	(33)
	<u>7,659</u>	<u>12,853</u>
Equity	(342)	1,483
	<u>7,317</u>	<u>14,336</u>
Total consolidated revenues	\$ 7,317	\$ 14,336
<u>Pretax Operating Gain (loss):</u>		
Finance	\$ (6,476)	\$ (2,558)
Real Estate	(673)	(633)
Leisure-time	112	4,168
	<u>(7,037)</u>	<u>977</u>
Equity	(342)	1,483
	<u>(7,379)</u>	<u>2,460</u>
Total consolidated pretax gain (loss)	\$ (7,379)	\$ 2,460
<u>Total Assets:</u>		
Finance	\$ 338,498	\$ 100,487
Energy	265,680	29,960
Real Estate	75,664	75,853
Leisure-Time	3,745	3,345
Intercompany adjustments	(272,191)	(2,799)
	<u>411,396</u>	<u>206,846</u>
Total consolidated assets	\$ 411,396	\$ 206,846

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

8. The following table summarizes securities that were not included in the calculations of diluted earnings per Class A share for the six-month periods ended June 30, 2007 and 2006 because such shares are anti-dilutive.

(Shares in thousands)

JUNE 30,	
2007	2006

Options and Rights

2,164

-

9. DEBT

During 2007 the Company entered into the following new loan agreement:

On February 26, 2007, the Company entered into a bank loan with Union Bank Of Israel (“UBI”). Pursuant to the loan agreement, on April 2, 2007 UBI granted the Company a \$10 million loan, which bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008. The loan is secured by a pledge of certain assets.

On April 26, 2007, the Company repaid its existing loans with Bank Hapoalim and signed a new loan agreement. The new agreement provides for a secured \$27 million dollar loan facility to the Company at the value as of March 30, 2007, to be used for general corporate purposes. On March 30, 2007, the Company borrowed the full \$27 million under the loan facility. The funds borrowed under the loan facility are due in six annual installments commencing on December 31, 2007 and bear an interest at an annual rate of LIBOR plus 2%. The Loan Agreement contains financial and other covenants including an acceleration of payment upon the occurrence of certain changes in the ownership of the Company’s Class A Stock.

As of June 30, 2007, the Company is in compliance with its debt covenants.

10. LEGAL PROCEEDINGS:

On March 18, 2007, tenants of the retirements centers for senior citizens of Am-Hal filed a lawsuit in the Tel Aviv District Court against Ampal, Am-Hal and other subsidiaries of Ampal. The lawsuit was filed after Ampal announced the potential sale of its holdings in Am-Hal to Mishan. Among other things, the plaintiffs requested that the District Court (i) issue warrants that will oblige Am-Hal to keep the deposits received from the tenants in a designated account for each tenant controlled by an accountant agreed to by Am-Hal and the tenants, (ii) maintain the level of services provided by Am-Hal to the tenants and (iii) maintain the ratio of independent tenants and supportive tenants in the centers. The plaintiffs also asked the District Court to issue temporary ex parte injunctions to prohibit Ampal from signing an agreement for the sale of its holdings in Am-Hal and to nominate a receiver to locate and keep the tenants’ deposits. The District Court did not grant the temporary injunctions ex parte and requested that the defendants reply to the claim in accordance with the normal procedures. The District Court removed the plaintiffs’ request for the temporary injunctions according to the plaintiffs’ request. On July 29, 2007 the District Court abated the claim as requested by the plaintiffs and defendants.

11. SUBSEQUENT EVENTS

On July 10, 2007, Ampal entered into an agreement to sell all of the Company’s interest in Am-Hal a 100% wholly own subsidiary to Phoenix Holdings Ltd. (“Phoenix”) and Golden Meybar (2007) Ltd. (“Golden Meybar”) for an aggregate consideration of \$29.3 million.

Since December 2005, Phoenix held an option to purchase 19.9% of Am-Hal’s issued share capital. Phoenix agreed not to exercise such option on or before the closing of the transaction.

On August 5, 2007, the Company completed the sale to Phoenix and Golden Meybar of all of the Company's interest in Am-Hal, and received from Phoenix and Golden Meybar an aggregate consideration of \$29.3 million. The closing of the sale was subject to the approval of anti-trust authorities and the consent of Bank Hapoalim Ltd., which were obtained on July 26, 2007 and July 29, 2007, respectively. As a result of the sale, the Company anticipates recording a gain of approximately \$29.7 million (approximately \$19.7 million, net of tax) and a reduction in assets and liabilities of approximately \$75.7 million and \$75.2 million, respectively, in the third quarter of 2007.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

CRITICAL ACCOUNTING POLICIES

The preparation of Ampal's consolidated financial statements is in conformity with generally accepted accounting principles in the United States which requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Ampal's business activities, described below are certain Ampal accounting policies that are relatively more important to the portrayal of its financial condition and results of operations and that require management's subjective judgments. Ampal bases its judgments on its experience and various other assumptions that it believes to be reasonable under the circumstances. Please refer to Note 1 to Ampal's consolidated financial statements included in this Annual Report for the fiscal year ended December 31, 2006 for a summary of all of Ampal's significant accounting policies.

Investment in EMG and other cost basis investments

The Company accounts for its 12.5% equity interest in East Mediterranean Gas Co. S.A.E., an Egyptian joint stock company ("EMG"), and a number of other investments on the basis of the cost method. EMG, which is the Company's most significant holding as of June 30, 2007, was acquired from Merhav (M.N.F.) Ltd. ("Merhav"), which is an entity controlled by one of the members of the Company's controlling shareholder group. As a result, the transaction was accounted for as a transfer of assets between entities under common control, which resulted in Merhav transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav's operations, this entity would be treated as an investment company under US GAAP, and as such, the carrying value of the investment in EMG would equal fair value. As a result, the 12.5% investment in EMG was transferred at carrying value, which equals fair value. Application of the cost basis method requires the Company to periodically review these investments in order to determine whether to maintain the current carrying value or to write off some or all of the investment. While the Company uses some objective measurements in its review, such as the portfolio company's liquidity, burn rate, termination of a substantial number of employees, achievement of milestones set forth in its business plan or projections and seeks to obtain relevant information from the company under review, the review process involves a number of judgments on the part of the Company's management. These judgments include assessments of the likelihood of the company under review to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments the Company must also attempt to anticipate trends in the particular company's industry as well as in the general economy. There can be no guarantee that the Company will be accurate in its assessments and judgments. To the extent that the Company is not correct in its conclusion it may decide to write down all or part of the particular investment.

Marketable Securities

We determine the appropriate classification of marketable securities at the time of purchase. We hold marketable securities classified as trading securities that are carried at fair value. We classify investment in marketable securities as investment in trading securities, if those securities are bought and held principally for the purpose of selling them in the near term (held for only a short period of time). All the other securities are classified as available for sale securities (as of June 30, 2007, no marketable securities were 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. We also do not provide for taxes on undistributed earnings of our foreign subsidiaries, as it is our intention to reinvest undistributed earnings indefinitely outside the United States. In 2007, there were no undistributed earnings from foreign subsidiaries.

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

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

Employee Stock-Based Compensation

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

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

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

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

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). The Company is currently evaluating the impact, if any, the adoption of SFAS 157 will have on its financial statements.

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

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

Results of Operations

Six months ended June 30, 2007 compared to Six months ended June 30, 2006

Ampal-American Israel Corporation (“Ampal”) and its subsidiaries (the “Company”) recorded a consolidated net loss of \$8.2 million for the six months ended June 30, 2007 compared to a net gain of \$0.8 million for the same period in 2006. The increase in losses is primarily attributable to a decrease in earning of affiliates, a decrease in net realized gains from investments and marketable securities, an increase in loss from impairment of investment and an increase in interest expense for the six months ended June 30, 2007 as compared to the same period in 2006.

Equity in earnings of affiliates decreased to a net loss of \$0.3 million for the six months ended June 30, 2007, compared to a net gain of \$1.5 million for the same period in 2006. The decrease is primarily attributable to the sale of Coral World International (“CWI”) in June 2006, which had recorded a gain of \$1.6 million in the six months ended June 30, 2006.

In the six month period ended June 30, 2007, the Company recorded \$0.2 million of net realized gain on investments, 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 interest in Carmel Containers Ltd. (“Carmel”) for \$4.6 million. No gain was recorded relating to sale of Carmel since an impairment was recorded during the first quarter of 2007 (see below – loss from impairment). 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 Ampal’s investee company, Telecom Partners (“TP”)(\$0.4 million gain)and the sale of certain assets by FIMI Opportunity Fund L.P (“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).

In the six month period ended June 30, 2007, the Company recorded \$0.5 million of loss from impairment of investment relating to the investment in Carmel.

In the six month period ended June 30, 2007, the Company recorded \$4.7 million of interest expense, compared to \$1.7 million for the same period in 2006. The increase in interest expense is primarily attributable to the notes issued to institutional investors in Israel and the convertible promissory note issued to Merhav which were issued in November and December 2006, respectively.

Results of operations analyzed by segments for six months ended June 30:

	2007	2006
	(U.S. Dollars in thousands)	
Revenues:		
Finance	\$ 1,580	\$ 3,034
Real estate income	4,967	4,704
Leisure-time	1,146	5,148
Intercompany adjustments	(34)	(33)
	7,659	12,853
Equity in earning of affiliates	(342)	1,483
Total	\$ 7,317	\$ 14,336

In the six months ended June 30, 2007, the Company recorded \$7.3 million in revenue which was comprised of \$1.6 million in the finance segment, \$5.0 million in the real estate segment, \$1.1 million in the leisure-time segment and a \$0.3 million loss in equity, as compared to \$14.3 million for the same period in 2006 which was comprised of \$3.0 million in the finance segment, \$4.7 million in real estate segment, \$5.1 million in the leisure-time segment and a \$1.5 million gain in equity. The decrease in finance segment revenue is primarily related to decrease in realized and unrealized gains on marketable securities. The decrease in leisure-time revenue 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:		
Finance	\$ 8,022	\$ 5,559
Real estate expense	5,640	5,337
Leisure-time	1,034	980
Total	\$ 14,696	\$ 11,876

In the six months ended June 30, 2007, the Company recorded \$14.7 million in expenses which was comprised of \$8.0 million in the finance segment, \$5.6 million in the real estate segment and \$1.0 million in the leisure-time segment, as compared to \$11.9 million expense for the same period in 2006 which was comprised of \$5.6 million in the finance segment, \$5.3 million in the real estate segment and \$1.0 million in the leisure-time segment. The increase in finance expense is primarily attributable to the increase in interest expense relate to the notes issued to institutional investors in Israel and the convertible promissory note issued to Merhav, which were issued in November and December of 2006, respectively.

Three months ended June 30, 2007 compared to three months ended June 30, 2006

The Company recorded a consolidated net loss of \$3.2 million for the three months ended June 30, 2007 compared to a net gain of \$1.4 million for the same period in 2006. The increase in losses is primarily attributable to a decrease in earning of affiliates, a decrease in net realized gains from investments and marketable securities and increase in interest expense for the three months ended June 30, 2007 as compared to the same period in 2006. This decrease in earnings was partially offset by an increase in translation gain for the three months ended June 30, 2007 as compared to the same period in 2006.

Equity in earnings of affiliates decreased to a net loss of \$0.3 million for the three months ended June 30, 2007, compared to a net gain of \$0.6 million for the same period in 2006. The decrease is primarily attributable to the sale of CWI in June 2006, which had recorded a gain of \$0.9 million in the three months ended June 30, 2006.

In the three month period ended June 30, 2007, the Company recorded \$0.2 million of net realized gain on investments, compared to \$3.4 million of net realized gain in the same period in 2006. On May 21, 2007 the Company sold all of its interest in Carmel for \$4.6 million. No gain was recorded relating to sale of Carmel since impairment was recorded during the first quarter of 2007. The gain recorded in 2006 was primarily attributable to the sale of CWI (\$4.2 million gain) and the sale of certain assets by FIMI (\$0.2 million gain). These gains were partially offset by a loss from the sale of Ophir (\$1.0 million loss).

In the three month period ended June 30, 2007, the Company recorded \$2.6 million of interest expense, compared to \$0.7 million for the same period in 2006. The increase in interest expense is primarily attributable to the notes issued to institutional investors in Israel and the convertible promissory note issued to Merhav, which were issued in November and December of 2006, respectively.

In the three month period ended June 30, 2007, the Company recorded a \$1.8 million translation gain, as compared to a \$0.6 million translation gain for the same period in 2006. The increase in translation gain is related to the devaluation of the New Israeli Shekel compared to the American Dollar.

Results of operations analyzed by segments for three months ended June 30:

	2007	2006
	(U.S. Dollars in thousands)	
Revenues:		
Finance	\$ 2,316	\$ 1,480
Real estate income	2,531	2,389
Leisure-time	524	4,632
Intercompany adjustments	(17)	(15)
	5,354	8,486
Equity in earning of affiliates	(325)	586
Total	\$ 5,029	\$ 9,072

In the three months ended June 30, 2007, the Company recorded \$5.0 million in revenue which was comprised of \$2.3 million in the finance segment, \$2.5 million in the real estate segment, \$0.5 million in the leisure-time segment and a \$0.3 million loss in equity, as compared to \$9.1 million for the same period in 2006 which was comprised of \$1.5 million in the finance segment, \$2.4 million in real estate segment, \$4.6 million in the leisure-time segment and a \$0.6 million gain in equity. The increase in financial segment is primarily attributable to the increase in translation gain related to the devaluation of the New Israeli Shekel compared to the American Dollar. The decrease in leisure-time revenue 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		
Finance	\$ 4,481	\$ 2,939
Real estate Expense	2,644	2,985
Leisure-time	523	511
Total	\$ 7,648	\$ 6,435

In the three months ended June 30, 2007, the Company recorded \$7.6 million in expenses which was comprised of \$4.5 million in the finance segment, \$2.6 million in the real estate segment and \$0.5 million in the leisure-time segment, as compared to a \$6.4 million expense for the same period in 2006 which was comprised of \$2.9 million in the finance segment, \$3.0 million in the real estate segment and \$0.5 million in the leisure-time segment. The increase in finance expense is primarily attributable to the increase in interest expense derived from the notes issued to institutional investors in Israel and the convertible promissory note issued to Merhav, which were issued in November and December of 2006, respectively.

Liquidity and Capital Resources

Cash Flows

On June 30, 2007, cash, cash equivalents and marketable securities were \$43.3 million, as compared with \$37.1 million at December 31, 2006. The increase is primarily attributable to the investment in marketable securities which was funded by the sale of Carmel and FIMI and by proceeds from exercise of warrants. This increase in cash flow was partially offset by the additional investment in EMG, Bay Heart Ltd. ("Bay Heart") and FIMI.

As of June 30, 2007, the Company had \$8.4 million of marketable securities as compared to \$0.4 million in 2006.

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

In addition, cash equal to \$12 million has been placed as 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 by operating activities totaled approximately \$15.4 million for the six months ended June 30, 2007, compared to approximately \$15.9 million provided by operating activities for the same period in 2006. The decrease is primarily attributable to the \$8.4 million of net investment in marketable securities in 2007 (\$9.5 million investment offset by \$1.1 million proceeds) as compared to \$21.8 million of net proceeds from the sale of marketable securities (\$71.8 million proceeds offset by \$50.0 million invested) in the same period of 2006.

Cash flows from investing activities

Net cash used in investing activities totaled approximately \$1.4 million for the Six months ended June 30, 2007, compared to approximately \$21.3 million provided by investing activities for the same period in 2006. The decrease is primarily attributable to the Company's investments in EMG (\$5.8 million), Bay Heart (\$1.5 million) and capital improvement in Am-Hal offset by proceeds from the sale of Carmel (\$4.6 million) and FIMI and by deposit collected. The cash provided by investing activities during 2006 is primarily attributable to the proceeds at the amount of \$23.0 million from the sale of CWI, Ophir, Modem Art and certain assets of TP and FIMI.

Cash flows from financing activities

Net cash provided by financing activities was approximately \$15.8 million for the six months ended June 30, 2007, compared to approximately \$5.0 million of net cash used in financing activities for the six month period ended June 30, 2006.

In the six months ended June 30, 2007, the Company paid down its existing notes payable to Bank Hapoalim in the amount of \$26.6 million while borrowing \$27.2 million under a loan facility with Bank Hapoalim and an additional \$10 million from Union Bank Of Israel ("UBI") and from exercise of warrants (\$5.0 million). In the six months ended June 30, 2006, the Company paid down its existing notes payable to Bank Hapoalim in the amount of \$5.8 million while using its own cash and borrowing an additional \$0.7 million under a loan facility with Bank Hapoalim.

Investments

In the six months ended June 30, 2007, the Company made additional investments of \$5.8 million in EMG as part of a capital call, \$1.4 million in the form of a loan to Bay Heart and \$0.1 million in FIMI.

In the six months ended June 30, 2007, the Company disposed of the following investment:

On May 21, 2007, the Company closed the sale of all of its holdings in Carmel, a packaging manufacturer based in Israel. Pursuant to this transaction, Ampal and its subsidiaries sold to Carmel an aggregate of 522,350 ordinary shares of Carmel for an aggregate sales price of approximately \$4.6 million. The Company recorded no gain since impairment was recorded in the first quarter of 2007.

On June 21, 2007, the Company sold certain assets of FIMI for \$0.4 million.

Debt

Notes issued to institutional investors in Israel, the convertible note issued to Merhav and other loans payable pursuant to bank borrowings are either in U.S. dollars, linked to the Consumer Price Index in Israel or in unlinked Israel Shekels, with interest rates varying depending upon their linkage provision, and they mature between 2007-2015.

The Company finances its general operations and other financial commitments through bank loans from Bank Hapoalim and UBI. As of June 30, 2007, the outstanding indebtedness under these bank loans totaled \$37.0 million and the loans mature through 2007-2013. As of December 31, 2006, the outstanding indebtedness under the bank loans from Bank Hapoalim was \$26.3 million.

On February 26, 2007, the Company entered into a bank loan with UBI. Pursuant to the loan agreement, UBI granted the Company a \$10 million loan, which bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008. The loan is secured by a pledge of certain assets.

On April 26, 2007, the Company repaid its existing loans with Bank Hapoalim and signed a new agreement. The new agreement provides for a secured \$27 million dollar loan facility to the Company at the value as of March 30, 2007, to be used for general corporate purposes. On March 30, 2007, the Company borrowed the full \$27 million under the loan facility. The funds borrowed under the loan facility are due in six annual installments commencing on December 31, 2007 and bear an interest at an annual rate of LIBOR plus 2%. The Loan Agreement contains financial and other covenants including an acceleration of payment upon the occurrence of certain changes in the ownership of our Class A Stock.

On November 20, 2006, the Company entered into a trust agreement with Hermatic Trust (1975) Ltd. pursuant to which the Company issued notes to institutional investors in Israel in the principal aggregate amount of NIS 250,000,000 (approximately \$58 million) with an interest rate of 5.75%, which is linked to the Consumer Price Index in Israel. 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. The Company received the funds from the private placement of the notes on November 20, 2006. Midroog Ltd., an affiliate of Moody's Investors Service rated the Company as A3.

On August 1, 2007, the Company published a prospectus for the registration and listing of the notes for trading on the TASE. Until the date of the listing, Ampal paid an additional annual interest rate of 0.5% on the notes.

In addition, as part of the EMG transaction in December 2006, the Company issued to Merhav a promissory note (the "Convertible Promissory Note") in the principal amount of \$20 million, which at the option of Merhav, will be paid in cash, additional shares of Ampal Class A Stock (based on a price per share of \$4.65 per share), or a combination thereof. The Convertible Promissory Note bears interest at 6 months LIBOR (5.375%) and matures on the earlier of September 20, 2007 or upon demand by Merhav. Ampal may pre-pay the Convertible Promissory Note at any time in whole or in part.

The Company financed a portion of the development of Am-Hal, a wholly-owned subsidiary of the Company, which develops and operates luxury retirement centers for senior citizens, through a revolving credit facility from Bank Hapoalim Ltd., Phoenix Insurance Company and others. On December 1, 2005, a loan agreement creating the facility was signed between Am-Hal, Phoenix Insurance Company and others. Pursuant to the loan agreement, the lenders granted Am-Hal a revolving credit facility in Israeli Shekels equal to \$12.5 million. The annual interest rate on the loan, which matures in 10 years, is 7.5%. The interest rate and the principal of the loan will be adjusted based on the changes in the Israeli Consumer Price Index. As of June 30, 2007, Am-Hal had drawn \$2.5 million from the facility. As of June 30, 2007, and December 31, 2006, the amount of Am-Hal's outstanding indebtedness under the loans from Bank Hapoalim Ltd., Phoenix Insurance Company and others, was \$15.3 million and \$15.0 million, respectively. The loans, excluding the Phoenix loan, mature in up to one year and have interest rates ranging between 6.5% and 7.5%. Am-Hal Company generally repays these loans with the proceeds received from deposits and other payments from the apartments in Am-Hal facilities. The loans are secured by a lien on Am-Hal's properties. The Company also issued guarantees in the amount of \$2.8 million in favor of tenants of Am-Hal in order to secure their deposits. On August 5, 2007, the Company completed the sale of all of its interest in Am-Hal (see subsequent events).

Other long term borrowings in the amount of \$1.7 million are linked to the Consumer Price Index in Israel and mature between 2007 and 2010, of which \$1.4 million bears no interest. The remaining \$0.3 million bears an annual interest rate of 5.7%.

The weighted average interest rates and the balances of these short-term borrowings as of June 30, 2007 and December 31, 2006 were 6.2% on \$16.3 million and 6.4% on \$21.2 million, respectively.

As of June 30, 2007, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$9.0 million. These include:

1. A \$5.3 million guarantee on indebtedness incurred by Bay Heart (\$1.6 million of which is recorded as a liability in the Company's financial statements as of June 30, 2007) in connection with the development of the property. Bay Heart recorded losses in 2007 as a result of decreased rental revenues. There can be no guarantee that Bay Heart will become profitable or that it will generate sufficient cash to repay its outstanding indebtedness without relying on the Company's guarantee.
2. A \$2.8 million guarantee to Am-Hal tenants as described above.
3. A \$1.0 million guarantee to Galha 1960 Ltd.

CHANGES IN SHAREHOLDERS EQUITY

During the second quarter of 2007 the Company issued 1,082,395 Class A Shares to investors that exercised warrants granted to them by the Company on December 28, 2006. The total proceeds from the exercise of warrants were \$5.0 million.

FOREIGN CURRENCY CONTRACTS

The Company's derivative financial instruments consist of foreign currency forward exchange contracts to purchase or sell US 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 June 30, 2007, the Company did not have any open foreign currency forward exchange contracts to purchase or sell U.S. Dollars.

FORWARD LOOKING STATEMENTS

This Quarterly Report (including but not limited to factors discussed above, in the "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this Quarterly Report on Form 10-Q) includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1993 and Section 21E of the Securities Exchange Act of 1934) 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 Quarterly Report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan," and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events or future financial performance of the Company, the outcome of which is subject to certain risks and other factors which could cause actual results to differ materially from those anticipated by the forward-looking statements, including among others, the economic and political conditions in Israel and the Middle East and the global business and economic conditions in the different sectors and markets where the Company's portfolio companies operate.

Should any of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcome may vary from those described herein as anticipated, believed, estimated, expected, intended or planned. These risks and uncertainties may include, but are not limited to, those described in this report, in Part II, Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2006, and those described from time to time in our future reports filed with the Securities and Exchange Commission. The Company assumes no obligation to update or revise any forward-looking statements.

ITEM 3. 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 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 June 30, 2007, and are sensitive to the above market risks.

During the six months ended June 30, 2007, there have been no material changes in the market risk exposures facing the Company as compared to those the Company faced in the fiscal year ended December 31, 2006.

Interest Rate Risks

At June 30, 2007, the Company had financial assets totaling \$32.7 million and financial liabilities totaling \$116.4 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 June 30, 2007, the Company did not have fixed rate financial assets and had variable rate financial assets of \$32.7 million. A ten percent decrease in interest rates would not increase the unrealized fair value of the fixed rate assets.

At June 30, 2007, the Company had fixed rate debt of \$66.0 million and variable rate debt of \$50.4 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 \$0.1 million.

The net decrease in earnings and cash flow for the next year resulting from a ten percent interest rate increase would be approximately \$0.3 million, holding other variables constant.

Foreign Currency Exchange Rate Sensitivity Analysis

The Company's exchange rate exposure on its financial instruments results from its investments and ongoing operations in Israel. During 2007, the Company did not enter into foreign exchange forward purchase contracts. At June 30, 2007, the Company didn't have any open foreign exchange forward purchase contracts. Holding other variables constant, if there were a ten percent devaluation of the foreign currency, the Company's cumulative translation loss reflected in the Company's accumulated other comprehensive loss would increase by \$1.6 million, and regarding the statements of operations, a ten percent devaluation of the foreign currency would be reflected in a net increase in earnings and cash flow would be \$8.1 million.

Equity Price Risk

The Company's investments as of June 30, 2007, included marketable securities which are recorded at a fair value of \$8.4 million, including a net unrealized loss of \$0.2 million. Those securities have exposure to equity price risk. The estimated potential loss in fair value resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges is approximately \$0.8 million. There will be no impact on cash flows resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges.

ITEM 4T. 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.

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 fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings:

On March 18, 2007, tenants of the retirements centers for senior citizens of Am-Hal filed a lawsuit in the Tel Aviv District Court against Ampal, Am-Hal and other subsidiaries of Ampal. The lawsuit was filed after Ampal announced the potential sale of its holdings in Am-Hal to Mishan. Among other things, the plaintiffs requested that the District Court (i) issue warrants that will oblige Am-Hal to keep the deposits received from the tenants in a designated account for each tenant controlled by an accountant agreed to by Am-Hal and the tenants, (ii) maintain the level of services provided by Am-Hal to the tenants and (iii) maintain the ratio of independent tenants and supportive tenants in the centers. The plaintiffs also asked the District Court to issue temporary ex parte injunctions to prohibit Ampal from signing an agreement for the sale of its holdings in Am-Hal and to nominate a receiver to locate and keep the tenants' deposits. The District Court did not grant the temporary injunctions ex parte and requested that the defendants reply to the claim in accordance with the normal procedures. The District Court removed the plaintiffs request for the temporary injunctions according to the plaintiffs' request. On July 29, 2007, the District Court abated the claim as requested by the plaintiffs and defendants.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None.

Item 3. Defaults upon Senior Securities
None.

Item 4. Submission of Matters to a Vote of Security Holders.
None.

Item 5. Other Information.
None.

Item 6. Exhibits.

(a) Exhibits:

- 10.1 Form of Amended and Restated Agreement of Certain Shareholders of East Mediterranean Gas Co. (Filed as Exhibit 10.1 to Form 8-K, filed with the SEC on June 8, 2007, and incorporated herein by reference).

- 10.2 Agreement between Ampal Industries Inc. and Phoenix Holdings Ltd. and Golden Meybar (2007) Ltd., dated July 10, 2007.
- 11.1 Schedule Setting Forth Computation of Earnings Per Share of Class A Stock.
- 31.1 Certification of Yosef A. Maiman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Irit Eluz pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Yosef A. Maiman and Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMPAL-AMERICAN ISRAEL CORPORATION

By: /s/ Yosef A. Maiman

Yosef A. Maiman
Chairman of the Board
President & Chief Executive Officer
(Principal Executive Officer)

By: /s/ Irit Eluz

Irit Eluz
CFO and Senior Vice President,
Finance and Treasurer
(Principal Financial Officer)

By: /s/ Giora Bar-Nir

Giora Bar-Nir
VP Accounting and Controller
(Principal Accounting Officer)

Date: August 8, 2007

Exhibit Index

Exhibit No.	Description
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Agreement

Drawn up and signed in Tel Aviv on July 10, 2007

– Between –

Ampal Industries Inc.

An American company registered in the State of Delaware,
Represented by its authorized signatories, Ms Irit Iluz and Mr. Yoram Firon
Whose address is c/o Ampal Israel Ltd, 111 Arlozorov Street, Tel Aviv
Fax: 036080101
(Hereinafter: "the Seller")

As party of the first part;

– And –

1. **Phoenix Holdings Ltd.**
(Corporation Number 520017450)
Of 53 Derech Hashalom Street, Tel Aviv
Fax: 03-5734516
Represented by its authorized signatories, Messrs Yaheli Shefi and Ehud Shapira
(Hereinafter: "the Phoenix").
2. **Golden Meybar (2007) Ltd**
(Corporation Number 513991380)
Of 38 Hamasger Street, Tel Aviv
Fax: 03-6394114
Represented by its authorized signatories, Yitzhak Meyuchas and Sharon Bar
(Hereinafter: "Golden")
(The Phoenix and Golden, jointly and severally, hereinafter: "the Buyer";
and each thereof "the Individuals of the Buyer").

As party of the second part;

(Hereinafter: "the Parties");

Whereas The Seller declares and undertakes vis-à-vis the Buyer that:

- A. It is the sole owner and holder of 100% of the shares of Am-Hal Ltd ("the Company" as defined in this Agreement hereunder), all indirectly by means of subsidiaries that are wholly owned by the Seller, distributed as detailed in this Agreement hereunder; and that

B. The Seller, by means of the companies in the group, as defined hereunder, operates the sheltered housing facility known as Ad 120 – Rishon Lezion (hereinafter: “the Rishon Lezion Facility”) and that it is a partner in the Hod Hasharon Partnership that operates the sheltered housing facility known as Ad 120 – Hod Hasharon (hereinafter: “the Hod Hasharon Facility”) and that it is a partner in the Ramat Hahayal Partnership, which is the developer for the construction of the sheltered housing facility known as Ad 120 – Ramat Hahayal (hereinafter: “the Ramat Hahayal Facility”).

And whereas The Buyer is interested in purchasing from the Seller all of the latter’s holdings in the Company and in receiving the transfer of the capital note, all against payment of the consideration that will be paid to the Seller and subject to the remaining terms and provisions detailed hereunder in this Agreement;

And whereas The Seller is interested in selling all of its holdings to the Buyer and in transferring the capital note to the Buyer subject to receipt of the consideration from the Buyer and subject to the remaining terms and provisions detailed hereunder in this Agreement;

It has therefore been declared, stipulated and agreed between the parties as follows:

1. **Preamble, Appendix and Interpretation**

1.1. The Preamble of this Agreement and any Appendix appended thereto constitute an inseparable part thereof.

1.2. The section headings are for purposes of convenience only, and neither they nor the drafts that have been exchanged between the Parties shall have any weight in the interpretation of this Agreement. According to the context of the matter, any statement made in the singular shall also be construed as pertaining to the plural and vice versa; and any statement made in the masculine gender shall also be construed as pertaining to the feminine gender and vice versa.

2. **Definitions**

In this Agreement the following terms shall have the meanings appearing alongside them:

2.1. Phoenix Option - as defined in Section 4.2.2 hereunder.

- 2.2. Ampal 1966 - Ampal Protected Housing (1966) Ltd (Private Company 510467640).
- 2.3. Ampal 1994 - Ampal Protected Housing (1994) Ltd (Private Company 512072430).
- 2.4. Ampal 1998 - Ampal Protected Housing (1998) Ltd (Private Company 512663675).
- 2.5. Ampal Israel - Ampal Israel Ltd (Public Company 520026220)
- 2.6. Ampal Development - Ampal Development (Israel) Ltd (Public Company 520002387)
- 2.7. Bank Hapoalim's Authorization - Authorization from Bank Hapoalim to transfer control of the Company to the Buyer
- 2.8. Bank Hapoalim - Bank Hapoalim Ltd
- 2.9. The Law - Israeli law or US law respectively, as applicable and in accordance with the context.
- 2.10. This Agreement - This Agreement, including all the appendixes hereto
- 2.11. The Company - Am-Hal Ltd (Private Company 511343717).
- 2.12. The Israel Corporation - The Israel Corporation Ltd (Public Company 520028010).
- 2.13. The Determining Date - The date on which all the suspending conditions have been met, as stated in Section 3 hereunder.
- 2.14. The Sold Shares - 25,200 ordinary shares of Ampal 1994, par value NIS 1 each, constituting 100% of the registered, issued and paid-up share capital of Ampal 1994, and 35,700 ordinary shares of Ampal 1998, par value NIS 1 each, constituting 100% of the registered, issued and paid-up share capital of Ampal 1998.
- 2.15. The Land in Hod Hasharon - the land in Hod Hasharon known as Block 6446, Parcel 357, on which the Hod Hasharon Facility is located.
- 2.16. The Land in Rishon Lezion - The land in Rishon Lezion known as Block 3925, Parcel 600, on which the Rishon Lezion Facility is located.

- 2.17. The Land in Ramat Hahayal - the land in Ramat Hahayal, Tel Aviv, known as Block 6338, Parcel 60, on which the Ramat Hahayal Facility is located.
- 2.18. **The Partner Parties or**
The Partner Party - As applicable, (1) Pertaining to the Hod Hasharon Partnership and to the Hod Hasharon General Partner - the Partner Parties, Pardes Margalit Ltd ("Pardes Margalit") and Shlomo A. Angel Ltd ("Angel"), who are the shareholders in the General Partner - Hod Hasharon and which are also limited partners in the Hod Hasharon Partnership, and (2) Pertaining to the Ramat Hahayal Partnership and to the Ramat Hahayal General Partner - the Partner Party, A. S. Uri Investments and Assets (2000) Ltd ("Uri"), which is a shareholder in the General Partner - Ramat Hahayal and which is also a limited partner in the Ramat Hahayal Partnership.
- 2.19. The Guarantees for the Company's Customers - Guarantees that the Seller and/or the Israel Corporation and/or Ampal Development and/or H. L. Management has signed as appendixes to the deposit track agreements of some of the Company's customers and that are detailed in the list attached to the Agreement as Appendix 0.
- 2.20. The General Partner - Hod Hasharon - Ad 120 Management Hod Hasharon (1996) Ltd (Private Company 512417387), which is the General Partner in the Hod Hasharon Partnership.
- 2.21. The General Partner - Ramat Hahayal - Ad 120 Ramat Hahayal (Management) Ltd (Private Company 511367286), which is the General Partner in the Ramat Hahayal Partnership.
- 2.22. The Partnerships - The Hod Hasharon Partnership and the Ramat Hahayal Partnership, jointly or severally, respectively and as relevant.
- 2.23. The General Partners - The General Partner - Hod Hasharon and the General Partner - Ramat Hahayal, jointly or severally, respectively and as relevant.
- 2.24. The Lien in favor of Ampal Development - A second degree lien equivalent to the lien in favor of H. L. Management, in favor of Ampal Development, on the Land in Rishon Lezion, as per Deed 33449/1992/0003, and which is intended to guarantee the Company's undertaking to repay to Ampal Development all the loans and/or credit that Ampal Development provided in the Company's favor or for the Company in accordance with the terms of the lien documents.

- 2.25. The Lien in favor of H. L. Management - A second degree lien equivalent to the lien in favor of Ampal Development, in favor of H. L. Management, on the Land in Rishon Lezion, as per Deed 14851/1990/0001, and which is intended to guarantee the Company's undertaking to repay to H. L. Management all the loans and/or credit that H. L. Management provided in the Company's favor or for the Company by virtue of the lien documents.
- 2.26. The Suspending Conditions - As the said term is defined in Section 3.1 hereunder.
- 2.27. The Holding Companies - Ampal 1966, Ampal 1994 and Ampal 1998.
- 2.28. The Activity Companies - The Company, the General Partners and the Partnerships.
- 2.29. The Companies in the Group - The Holding Companies and the Activity Companies.
- 2.30. H. L. Management - H. L. Management and Consulting (1986) Ltd
- 2.31. The Company's Customers - The residents of the sheltered housing facilities in Rishon Lezion and/or Hod Hasharon, as applicable.
- 2.32. The Closing Date - The closing date of the deal that is the object of this contract, which will be at 10:00 on the fifth business day after the Determining Date.
- 2.33. The Company's Shares - All the Company's issued share capital, which stands at 600 ordinary Company shares par value NIS 1.0 each, half of which are held by Ampal 1966 and the other half by Ampal 1994.
- 2.34. Free and Clear - with regard to shares or assets - free and clear of any debt, lien, attachment or other third party right whatsoever, including, but without prejudice to the generality of the aforesaid, purchase options, right of first refusal or right of first opportunity, and trusteeship for others.

- 2.35. Third Party - anyone who is not one of the Parties to this Agreement.
- 2.36. The Hod Hasharon Partnership - Ad 120 Hod Hasharon - Limited Partnership (Partnership Number 550015952).
- 2.37. The Ramat Hahayal Partnership - Ad 120 Ramat Hahayal - Limited Partnership (Partnership Number 5502197455).
- 2.38. The Capital Deed - a capital deed in the sum of \$5,734,607 that was given by the Seller to Ampal 98, a copy whereof is attached to this Agreement as Appendix 2.38.
- 2.39. The Dollar Rate - The latest representative rate of the dollar that was published by the Bank of Israel before the date of payment as per this Agreement. If, during a given period, the representative rate of the US dollar is not published, the Dollar Rate on the relevant date will be the arithmetical mean between the highest selling rate at which Bank Hapoalim Ltd (the Main Branch) will sell US dollars to residents of Israel who do not have any special rights or exemptions, and the lowest buying rate at which Bank Hapoalim Ltd (the Main Branch) will buy US dollars from residents of Israel who do not have any special rights or exemptions at that time.
- 2.40. The Tile Lawsuit - The lawsuit - Hod Hasharon Partnership versus A. Epstein and Sons (1995) Ltd et al, at the Tel Aviv District Court (Civil Case 2028/04) in connection with falling tiles at the Hod Hasharon Facility.
- 2.41. The Tenants Lawsuit - A lawsuit that was filed by some of the Company's Customers against the Hod Hasharon Partnership, the Company and others, inter alia in connection with its intention of selling the Sold Shares to Mishan, at the Tel Aviv District Court (Civil Case 1450/07).
- 2.42. The Countersuit - The countersuit that was filed by the Seller et al against the Plaintiffs in the Tenants Lawsuit.

3. **Suspending Conditions**

- 3.1. The performance of the deal that is the object of this Agreement is contingent on the fulfillment of all the conditions detailed hereunder, cumulatively (“the Suspending Conditions”):
- 3.1.1. Obtaining authorization from the Antitrust Commissioner as per the Antitrust Law, 5748-1988 (hereinafter: “the Commissioner”) for the Parties to contract as per this Agreement (hereinafter: “the Commissioner’s Authorization”).

It is clarified that should the Commissioner make the deal that is the object of this Agreement contingent and/or make the granting of his authorization contingent on obtaining an exemption for binding arrangements and/or not grant an exemption from obtaining authorization for binding arrangements and/or make his approval of the Merger contingent on other conditions (hereinafter: “the Commissioner’s terms”), the Parties shall perceive the conditions in this Section as a condition that is met only if the Parties have agreed, in advance and in writing, that the Suspending Condition that is the object of this Section was met in accordance with the Commissioner’s Conditions. It is clarified that each Party will be permitted, at its exclusive discretion, to accept or reject the Commissioner’s Conditions, and each Party will inform the other of same within 7 days from the date of the answer from the Commissioner.

3.1.2. Obtaining authorization from Bank Hapoalim, subject to the foregoing in Section 7.2 hereunder.

- 3.2. Should the Determining Date not take place within 90 days from the date of signing of this Agreement (hereinafter: “the First Performance Date”), or by the first extension date (as defined hereunder), if it was extended or the additional extension date (as defined hereunder), if it was extended (or on a later date as shall be agreed upon in writing between the Parties), this Agreement will not enter into effect at all and will be null and void and neither of the Parties will have any contention and/or claim and/or demand vis-à-vis the other Party in respect of the Agreement and/or in respect of the failure thereof to enter into effect as stated, unless the Suspending Condition was not fulfilled if either of the Parties breached his undertaking as stated in Section 3.3 hereunder, and the Seller returns to each of the Individuals of the Buyer half of the advance, as defined in Section (10.2), which was transferred thereby in accordance with its dollar value, within 15 days from the date upon which it becomes apparent that this Agreement is not entering into effect and that it is null and void as aforesaid, and to the bank account whose details are given to the Seller by each of the Individuals of the Buyer as stated. Notwithstanding the aforesaid, should any of the conditions enumerated in Section 3.1 above not be fulfilled by the first date for performance, because the Commissioner’s Authorization has not yet been given or because of clarifications at the office of the Commissioner (for example, if the authorization is given on conditions that either of the Parties did not agree to), or for any other reason whatsoever, which is not a breach of this Agreement, the first date for performance will be extended by an additional 60 days (above and hereinafter: “the First Extension Date”) and moreover, each Party will be permitted to inform the other Party in writing, once and once only, of an additional extension of an additional 30 days from the First Extension Date (above and hereinafter: “the Additional Extension Date”).

3.3. Each of the Parties, as relevant, undertakes to cooperate with the other Party and to do his best and to do all that is reasonably required in order to fulfill the Suspending Conditions, on the earliest possible date, after the signing of this Agreement.

4. **The Seller's Representations and Declarations**

The Seller hereby declares, undertakes and affirms vis-à-vis the Buyer that all the representations and undertakings hereunder are correct and complete as at the date of signing the of this Agreement and as at the Closing Date (subject to the foregoing in Section 4.16.1 hereunder):

4.1. **The Seller and the Holding Companies**

- 4.1.1. Xs is a private company registered in the State of Delaware, USA. As detailed hereunder, the Seller is the sole and exclusive owner, directly or indirectly, of the Holding Companies and of the Company.
- 4.1.2. Ampal 1994 is a private company registered in Israel whose number is 512072430.
- 4.1.3. Ampal 1998 is a private company registered in Israel whose number is 512663675.
- 4.1.4. Ampal 1966 is a private company registered in Israel whose number is 510467640.
- 4.1.5. Ampal 1994, Ampal 1998 and Ampal 1966 serve as holding companies exclusively, solely for the purpose of holding all the shares in the Company as described in this Agreement and they have no business activity and/or undertakings whatsoever and/or any debts whatsoever and/or any assets whatsoever, apart from their holdings in the Company and apart from that which is described in the audited financial statements hereunder (included in Appendix (4.9.1) to this Agreement).
- 4.1.6. As at the date of signing of this Agreement the Seller is the sole and exclusive owner of 2,000 ordinary shares, par value NIS 1 each, in Ampal 1994, constituting 100% of the issued and paid-up capital of Ampal 1994; up to the Closing Date Ampal 1994 will allocate the entire balance of its registered share capital to the Seller in such a manner that after the allocation as stated and as at the Closing Date the Seller will be the exclusive holder of 25,200 ordinary shares par value NIS 1 each in Ampal 1994, constituting 100% of registered, issued and paid-up capital of Ampal 1994. All the Seller's shares in Ampal 1994 are Free and Clear and have been paid up in full. Apart from the aforesaid no person and no body whatsoever, either directly or indirectly, has any shares and/or rights whatsoever in Ampal 1994, including any right to purchase and/or receive by way of allocation shares and/or rights in Ampal 1994 and/or any security or other right that is exercisable and/or convertible, either directly or indirectly, into shares and rights in Ampal 1994.

- 4.1.7. As at the date of signing of this Agreement the Seller is the sole and exclusive owner of 1,000 ordinary shares, par value NIS 1 each, in Ampal 1998, constituting 100% of the issued and paid-up capital of Ampal 1998; up to the Closing Date Ampal 1998 will allocate the entire balance of its registered share capital to the Seller in such a manner that after the allocation as stated and as at the Closing Date the Seller will be the exclusive holder of 35,700 ordinary shares par value NIS 1 each in Ampal 1998, constituting 100% of registered, issued and paid-up capital of Ampal 1998. All the Seller's shares in Ampal 1998 are Free and Clear and have been paid up in full. Apart from the aforesaid no person and no body whatsoever, either directly or indirectly, has any shares and/or rights whatsoever in Ampal 1998, including any right to purchase and/or receive by way of allocation shares and/or rights in Ampal 1998 and/or any security or other right that is exercisable and/or convertible, either directly and/or indirectly, into shares and rights in Ampal 1998.
- 4.1.8. Ampal 1998 is the sole and exclusive owner of 242,910,000 ordinary shares, par value NIS 0.001 each, in Ampal 1966, constituting 100% of the issued and paid-up capital of Ampal 1996; All the Seller's shares in Ampal 1996 are Free and Clear and have been paid up in full. Apart from the aforesaid no person and no body whatsoever, either directly or indirectly, has any shares and/or rights whatsoever in Ampal 1966, including any right to purchase and/or receive by way of allocation shares and/or rights in Ampal 1966 and/or any security or other right that is exercisable and/or convertible, either directly and/or indirectly, into shares and rights in Ampal 1966.
- 4.1.9. Ampal 1996 is the sole and exclusive owner of 300 ordinary shares, par value NIS 1 each, in the Company, constituting 50% of the Company's issued and paid-up capital; All of Ampal 1996's shares in the Company are Free and Clear and have been paid up in full.
- 4.1.10. Ampal 1994 is the sole and exclusive owner of 300 ordinary shares, par value NIS 1 each, in the Company, constituting 50% of the Company's issued and paid-up capital; All of Ampal 1994's shares in the Company are Free and Clear and have been paid up in full.
- 4.1.11. All the issued capital of the Companies in the Group (insofar as the Companies are concerned) has been duly issued and is paid up in full.

4.2. **The Company and the Remaining Activity Companies**

- 4.2.1. The Company is a private company registered in Israel whose number is 511343717.
- 4.2.2. In a loan agreement from December 1, 2005 the Company granted the Israel Phoenix Assurance Association Ltd, as it was known at the time (hereinafter: "Phoenix Insurance") and Hadar Insurance Company Ltd (hereinafter: "Hadar"), in equal parts, an option for the purpose of such a quantity of Company shares that would constitute 19.9% (fully diluted and after the exercise of the option) of the Company's share capital at the time the option is exercised (hereinafter in this Agreement: "the Phoenix Option") at an agreed-upon exercise price. The Phoenix Option period is four years beginning on the date of signing of the aforementioned Loan Agreement. Phoenix Insurance and Hadar undertook not to exercise the Phoenix Option for the period up to the Closing Date. This undertaking on the part of Phoenix Insurance and Hadar is attached to this Agreement as Appendix 4.2.2.
- 4.2.3. Apart from the foregoing in Sections 4.1.9 and 4.1.10 above and the Phoenix Option no person and no body whatsoever, either directly or indirectly, has any shares and/or rights whatsoever in the Company, including any right to purchase and/or receive by way of allocation shares and/or rights in the Company and/or any security or other right that is exercisable and/or convertible, either directly and/or indirectly, into shares and rights in the Company.
- 4.2.4. The Company is the sole and exclusive owner of 8 ordinary shares, par value NIS 1 each, in the General Partner – Hod Hasharon, constituting 80% of the General Partner Hod Hasharon's issued and paid-up capital; All of the Company's shares in the General Partner – Hod Hasharon are Free and Clear and have been paid up in full. The remaining 20% of General Partner – Hod Hasharon's issued and paid-up share capital is held by the Partner Parties, Pardes Margalit and Angel.
- 4.2.5. Apart from the aforesaid no person and no body whatsoever has any shares and/or rights whatsoever in the General Partner – Hod Hasharon, including any right to purchase and/or receive by way of allocation shares and/or rights in the General Partner – Hod Hasharon and/or any security or other right that is exercisable and/or convertible, either directly and/or indirectly, into shares and/or rights in the General Partner – Hod Hasharon.
- 4.2.6. The Company is a limited partner in the Hod Hasharon Partnership. The Company is a partner with 81.99% of the capital in the Hod Hasharon Partnership and 81.99% of the rights to the profits of the Hod Hasharon Partnership. 0.01% of the capital of the Hod Hasharon Partnership and of the right to profits of the Hod Hasharon Partnership is held by the General Partner – Hod Hasharon. The remaining 18% in the Hod Hasharon Partnership and of the right to share in the profits of the Hod Hasharon Partnership are held by the Partner Parties, Pardes Margalit and Angel.

- 4.2.7. Apart from the aforesaid no person and no body whatsoever has any rights whatsoever in the Hod Hasharon Partnership, including any right whatsoever to purchase and/or receive by way of allocation rights in the Hod Hasharon Partnership or any other right that is exercisable and/or convertible, either directly and/or indirectly, into rights in the Hod Hasharon Partnership.
- 4.2.8. The Company is the sole and exclusive owner of 75 ordinary shares, par value NIS 1 each, in the General Partner – Ramat Hahayal, constituting 75% of the General Partner Ramat Hahayal's issued and paid-up capital; All of the Company's shares in the General Partner – Ramat Hahayal are Free and Clear and have been paid up in full. The remaining 25% of General Partner – Ramat Hahayal's issued and paid-up share capital is held by the Partner Party, Uri.
- 4.2.9. Apart from the aforesaid no person and no body whatsoever has any shares and/or rights whatsoever in the General Partner – Ramat Hahayal, including any right to purchase and/or receive by way of allocation shares and/or rights in the General Partner – Ramat Hahayal and/or any security or other right that is exercisable and/or convertible, either directly and/or indirectly, into shares and/or rights in the General Partner – Ramat Hahayal.
- 4.2.10. The Company is a limited partner in the Ramat Hahayal Partnership. The Company is a partner with a 74.975% of the capital in the Ramat Hahayal Partnership and 74.975% of the rights to the profits of the Ramat Hahayal Partnership. 0.1% of the capital of the Ramat Hahayal Partnership and of the right to profits of the Ramat Hahayal Partnership is held by the General Partner – Ramat Hahayal. The remaining 24.925% of Ramat Hahayal Partnership's capital and the right to share in the profits of the Ramat Hahayal Partnership is held by the Partner Party, Uri.
- 4.2.11. Apart from the aforesaid no person and no body whatsoever has any rights whatsoever in the Ramat Hahayal Partnership, including any right whatsoever to purchase and/or receive by way of allocation rights in the Ramat Hahayal Partnership or any other right that is exercisable and/or convertible, either directly and/or indirectly, into rights in the Ramat Hahayal Partnership.
- 4.2.12. Apart from the foregoing in Appendix 4.2.12, no body whatsoever has any right or claim (actual or potential) to the right of first refusal or tag-along right in a sale or any other similar right in connection with the sale of the Sold Shares.

4.3. **The Rishon Lezion Facility**

- 4.3.1. The Company is the holder of the ownership rights in the Land in Rishon Lezion as stated in the Land Registry Extract attached to the Agreement as Appendix 4.3.1. On the Land in Rishon Lezion the Company built the Rishon Lezion Facility, which is operated by the Company. The Company is the sole and exclusive owner of the Land in Rishon Lezion and the Rishon Lezion Facility subject to the rights of the Company's Customers who reside in the Rishon Lezion Facility in accordance with the agreements that were signed with them, the Rishon Lezion Tenants (as defined hereunder) in accordance with the agreements that were signed with them and the Meuhedet Health fund, in accordance with the agreement that was signed with it.
- 4.3.2. Apart from the mortgages and caveats registered in the Land Registry Extract, Appendix 4.3.1, and save as detailed in this Agreement, the Land in Rishon Lezion is Free and Clear.
- 4.3.3. Unless and insofar as specified otherwise in Appendix 4.3.3 to this Agreement:
- a) The Seller does not know of any material defect, malfunction or fault (including a concealed fault) in the Rishon Lezion Facility and/or in the systems thereof.
 - b) The Seller does not know that construction constituting construction in contraventions of the provisions of any law, including a building deviation, was performed in the Rishon Lezion Facility and/or in any part thereof, or that the Rishon Lezion Facility, including all the parts thereof, is not duly constructed in accordance with the authorizations and permits and that no irregular use was made thereof according to law, and the Seller did not receive any claims of building deviations as stated.
 - c) The Seller does not know of any intention to prepare or to alter an urban building plan that applies to the Land in Rishon Lezion, which could adversely alter the Company's rights in the Land in Rishon Lezion, or compromise them (as the term "compromise" is defined in Section 197 of the Planning and Building Law, 5725-1965).
- 4.3.4. On June 7, 1992 an agreement for the management and operation of the Neve Amit Ad 120 – Rishon Lezion Long-Term Care Unit was signed between the Company and the Meuhedet Health Fund (hereinafter: "the Meuhedet Health Fund Agreement"). The Meuhedet Health Fund Agreement and all the appendices thereto are attached to this Agreement as Appendix 4.3.4. The Meuhedet Health Fund Agreement is in full force and effect and has not been cancelled. The Seller does not know of any grounds for the cancellation thereof. The Seller has not received and does not know of the existence (actual or potential) of contentions and/or claims and/or demands on the part of the Meuhedet Health Fund pertaining to the validity of the Meuhedet Health Fund Agreement and/or a failure to uphold any of the terms thereof. The Meuhedet Health Fund's debt to the Company as at June 30, 2007 stands at around NIS 400,000 and the Seller does not know of any reason whatsoever for that debt not to be repaid to the Company in full.

- 4.3.5. The Company rents space in the Rishon Lezion Facility to various service operators (above and hereinafter: “the Rishon Lezion Tenants”). All the agreements with the Rishon Lezion Tenants are detailed in the list attached as Appendix 4.3.5 to this Agreement, true copies thereof were given to the Buyer and they are in effect and have not been cancelled. The Seller does not know of any grounds for the cancellation of any of them. The Seller has not received and does not know of the existence (actual or potential) of contentions and/or claims and/or demands on the part of the Rishon Lezion Tenants pertaining to the validity of the agreements with them and/or a failure to uphold any of the terms thereof.
- 4.3.6. Neither the Company nor any party acting on its behalf, directly or indirectly, has given any undertaking to any third party whomsoever, including and without prejudice to the generality of the aforesaid, rights of ownership, leasehold, easement, franchise, and the like, pertaining to any areas whatsoever in the Land in Rishon Lezion, save as detailed explicitly in this Agreement.
- 4.3.7. The Company’s Rishon Lezion/2/27/7/1 Ad 120 plan which pertains, inter alia, to the addition of two floors to the building in Rishon Lezion, was submitted to the District Committee and, as at the date of this Agreement, the plan has been deposited for objections. Save as stated otherwise in Appendix 4.3.7 to this Agreement, the Seller does not know that objections against the said plan have been filed, nor does the Seller know of any grounds whatsoever that would prevent it from being accepted.

4.4. **The Hod Hasharon Facility**

- 4.4.1. In accordance with an agreement from January 14, 1997 for the purchase of the Land in Hod Hasharon from Pardes Margalit and Angel (the Partner Parties), a copy whereof is attached to the Agreement as Appendix 4.4.1 (hereinafter: “the Agreement for the Purchase of the Land in Hod Hasharon”), the Hod Hasharon Partnership is entitled to be registered as the owner of the Land in Hod Hasharon. The Agreement for the Purchase of the Land in Hod Hasharon is in full force and effect and has not been cancelled. The Seller does not know of any grounds for the cancellation thereof. The Seller has not received and, save as is detailed in this Agreement, does not know of the existence (actual or potential) of contentions and/or claims and/or demands on the part of Pardes Margalit and Shlomo Angel that are valid and that pertain to the validity of the Agreement for the Purchase of the Land in Hod Hasharon and/or a failure to uphold any of the terms thereof. The Hod Hasharon Partnership is the sole and exclusive owner of the Land in Hod Hasharon and the Hod Hasharon Facility subject to the rights of the Company’s Customers who reside in the Hod Hasharon Facility in accordance with the agreements that were signed with them and the Hod Hasharon Tenants (as defined hereunder) in accordance with the agreements that were signed with them.

- 4.4.2. The Hod Hasharon Partnership has upheld all its undertakings in accordance with the Agreement for the Purchase of the Land in Hod Hasharon, apart from the payment of the balance of the Consideration in the sum of around \$1,037,000 (one million and thirty seven thousand United States dollars) (as at March 31, 2007) to the Partner Parties. Apart from making the payment as stated, which has not yet been performed with the consent of the Partner Parties, there is nothing under any law, contract or otherwise, to prevent the completion of the Agreement for the Purchase of the Land in Hod Hasharon, and to register the Land in Hod Hasharon in the name of the Hod Hasharon Partnership.
- 4.4.3. Apart from making the payment of the balance to the Partner Parties as stated in Section 4.4.2 above, the full Consideration has been paid and every payment in respect of an in connection with the purchase of the Land in Hod Hasharon has been performed, and the Hod Hasharon Partnership does not owe any sums whatsoever in respect of the purchase of the Land in Hod Hasharon. The Seller does not know of any demand for payment whatsoever in connection with the purchase of the Land in Hod Hasharon.
- 4.4.4. Apart from the mortgages and the caveats registered in the Land Registry Extract attached to the Agreement as Appendix 4.4.4 and subject to the foregoing in this Agreement and in the Agreement for the Purchase of the Land in Hod Hasharon, the Land in Hod Hasharon is Free and Clear.
- 4.4.5. The Hod Hasharon Facility was built by the Hod Hasharon Partnership on the Land in Hod Hasharon and is operated thereby.
- 4.4.6. Unless and insofar as specified otherwise in Appendix 4.4.6 to this Agreement:
- A. The Seller does not know of any material defect, malfunction or fault (including a concealed fault) in the Hod Hasharon Facility and/or in the systems thereof, apart from the matter of the falling marble tile cladding in respect whereof the Tile Lawsuit was filed.

- B. The Company has commenced proceedings for reinforcing all the tile cladding (interior and exterior) in the Hod Hasharon Facility. (“the Renovation Work – Tiles”).
 - C. The Seller does not know that construction constituting construction in contraventions of the provisions of any law, including a building deviation, was performed in the Hod Hasharon Facility and/or in any part thereof, or that the Hod Hasharon Facility, including all the parts thereof, is not duly constructed in accordance with the authorizations and permits and that no irregular use was made thereof according to law, and the Seller did not receive any claims of building deviations as stated.
 - D. The Seller does not know of any intention to prepare or to alter an urban building plan that applies to the Land in Hod Hasharon, which could adversely alter the Company’s rights in the Land in Hod Hasharon, or compromise them(as the term “compromise” is defined in Section 197 of the Planning and Building Law, 5725-1965).
- 4.4.7. The Hod Hasharon Partnership rents space in the Hod Hasharon Facility to various service operators (above and hereinafter: “the Hod Hasharon Tenants”). All the agreements with the Hod Hasharon Tenants are in effect and have not been cancelled. The Seller does not know of any grounds for the cancellation of any of them. The Seller has not received and does not know of the existence (actual or potential) of valid contentions and/or claims and/or demands on the part of the Hod Hasharon Tenants pertaining to the validity of the agreements with them and/or a failure to uphold any of the terms thereof.
- 4.4.8. Neither the Hod Hasharon Partnership nor any party acting on its behalf, directly or indirectly, has given any undertaking to any third party whomsoever, including and without prejudice to the generality of the aforesaid, rights of ownership, leasehold, easement, franchise, and the like, pertaining to any areas whatsoever in the Land in Hod Hasharon, save as detailed explicitly in this Agreement and in the Agreement for the Purchase of the Land in Hod Hasharon.
- 4.4.9. Under an agreement dated June 18, 2003 between the Company and U. Dori Engineering Work Ltd (hereinafter: “U. Dori”), a copy whereof was given to the Buyer, U. Dori sold its rights and obligations in the Hod Hasharon Partnership and its shares in the General Partner Hod Hasharon to the Company, (such that after the sale the Company holds 80% of the General Partner Hod Hasharon’s issued and paid up share capital and 81.99% of the voting rights in the Hod Hasharon Partnership). The aforesaid agreement is in full force and effect and has not been cancelled. The Seller does not know of any grounds for the cancellation thereof. The Seller has not received and does not know of the existence (actual or potential) of contentions and/or claims and/or demands on the part of the U. Dori pertaining to the validity of the agreement therewith and/or a failure to uphold any of the terms thereof. Apart from an undertaking by the Company to indemnify U. Dori that is included in the aforementioned agreement, and in respect whereof there is no (actual or, to the Seller’s knowledge, potential) grounds for indemnification, the Parties to the aforementioned agreement have upheld and are upholding all their undertakings under the aforementioned agreement.

4.5. **The Purchase of Building Rights in Hod Hasharon**

4.5.1. On November 26, 2002, an agreement was signed between the Hod Hasharon Partnership and Cohen Development Darad Limited Partnership, a true copy whereof has been given to the Buyer, whereby the Hod Hasharon Partnership purchased building rights for a principal area of 350 m⁽²⁾ which has not yet been utilized and which is adjacent to part of Parcel 356 in Block 6446 in Hod Hasharon (hereinafter: “the Agreement for the Purchase of the Building Rights in Hod Hasharon”).

On May 28, 2007, an additional agreement was signed between the Hod Hasharon Partnership and Cohen Development Darad Limited Partnership, a true copy whereof has been given to the Buyer, whereby the Hod Hasharon Partnership purchased building rights for an area of 200 m² in Hod Hasharon (hereinafter: “the Second Agreement for the Purchase of the Building Rights in Hod Hasharon”). Both the said agreements in this section will be referred to hereunder as “the Agreement for the Purchase of the Building Rights in Hod Hasharon”).

4.5.2. The Agreements for the Purchase of the Building Rights in Hod Hasharon are in full force and effect and have not been cancelled. The Seller does not know of any grounds for the cancellation thereof. The Seller has not received and does not know of the existence (actual or potential) of valid contentions and/or claims and/or demands on the part of Cohen Development Darad Limited Partnership pertaining to the validity of the Agreements for the Purchase of the Building Rights in Hod Hasharon and/or a failure to uphold any of the terms thereof.

4.6. **The Land in Ramat Hahayal**

4.6.1. The Ramat Hahayal Partnership owns the rights in the Land in Ramat Hahayal under agreements from April 7, 2005, and addenda thereto from October 5, 2006 and July 4, 2007 attached to this Agreement as Appendix 4.6.1, which are contingent on Suspending Conditions that must be met by the date to be agreed upon from time to time between the Parties and which shall be no later than April 6, 2009, and which have not yet been met. These agreements are in full force and effect and have not been cancelled. The Seller does not know of any grounds for the cancellation of these agreements (subject to the fulfillment or non-fulfillment of the Suspending Conditions therein). The Seller has not received and does not know of the existence (actual or potential) of valid contentions and/or claims and/or demands on the part of any of the Other Parties to the said agreements pertaining to the validity of these agreements and/or a failure to uphold any of the terms thereof.

- 4.6.2. The full Consideration has been paid and every payment in respect of an in connection with the purchase of the Land in Ramat Hahayal has been made, and the Ramat Hahayal Partnership does not owe any sums whatsoever in respect of the purchase of the Land in Ramat Hahayal and does not know of any demand for payment whatsoever in connection with the purchase of the Land in Ramat Hahayal, apart from a demand for the payment of a capitalization fee in the sum of around NIS 14,229,000 (plus VAT) (“the Capitalization Fee”) that was recently made by the Israel Land Administration, as a condition for granting its consent for the issuing of a building permit for the Project in Ramat Hahayal and the transfer of the rights from Etz Hazayit Ltd (“Etz Hazayit”) to the Ramat Hahayal Partnership and to Uri, and in connection whereof the Ramat Hahayal Partnership contracted with Etz Hazayit and Uri in the addendum to the said agreement from June 28, 2007, and with Uri in the addendum to the agreement for the partnership in the land from June 28, 2007, and the Company sent Uri the letter dated June 24, 2007 and received the letter from Uri dated June 24, 2007, and the Ramat Hahayal Partnership and Uri submitted, by means of Etz Hazayit, a reservation and counter-assessment vis-à-vis the Israel Land Administration’s assessment (all as detailed in the said documents, true copies whereof are presented in Appendix 4.6.2 to this Agreement).
- 4.6.3. Neither the Ramat Hahayal Partnership nor any party acting on its behalf, has given any undertakings to any third party whomsoever, including and without prejudice to the generality of the aforesaid, rights of ownership, leasehold, easement, franchise, and the like, pertaining to any areas whatsoever in the Land in Ramat Hahayal and, save as detailed otherwise in Appendix 4.6.3, the Land in Ramat Hahayal is Free and Clear (and, *inter alia* , all the Ramat Hahayal Partnership’s rights to guarantee Uri’s undertakings vis-à-vis the bank under the agreement for the partnership in the land have been mortgaged in favor of the First International Bank of Israel).
- 4.6.4. Uri (by means of an affiliated contracting company on its behalf – S. G. S.) has begun building the foundation for the Ramat Hahayal Facility on the Land in Ramat Hahayal, *inter alia* in connection with a contracting agreement between the Partnership and S. G. S., a true copy whereof has been given to the Buyer.

4.7. **Agreement, Lack of Preclusion and Authorizations**

- 4.7.1. The Seller's certified organs have approved the Seller's contracting in this Agreement including all the Appendices thereto, and the fulfillment of all the Seller's undertakings under this Agreement and, apart from these authorizations and the fulfillment of the Suspending Conditions mentioned in Section 3.1 above, the Seller has no need, including as per the articles of incorporation thereof and under any law and under American law, to obtain any additional authorizations whatsoever for the purpose of its entry into this Agreement and the fulfillment of all its undertakings thereunder. The wording of the decisions by the Seller's certified organs as aforesaid is attached to this Agreement as Appendix 4.7.1 and signed copies of the said decisions will be attached to this Agreement on the Closing Date.
- 4.7.2. The signatures of the signatories of this Agreement on the Seller's behalf on this Agreement and on any document accompanying this Agreement are binding on the Seller, and this Agreement, including and all the terms thereof, are binding on the Seller for all intents and purposes.
- 4.7.3. Apart from Bank Hapoalim's Authorization and the fulfillment of the remaining the Suspending Conditions, there is no need for the consent and/or authorization of any third party whomsoever, including, but without prejudice to the generality of the aforesaid, of any government authority in Israel or abroad or of any or all of the Partner Parties, for the Seller's entry into this Agreement and for the fulfillment of all the Seller's undertakings thereunder, in full and on time.
- 4.7.4. The Seller's entry into this Agreement and the fulfillment of all the Seller's undertakings thereunder in no way contravene and do not constitute a breach of any law whatsoever (including US law) that applies to the Seller and/or to any of the Companies in the Group and/or of the documents of incorporation of the Seller and/or those of any of the Companies in the Group and/or of an administrative order and/or verdict and/or other decision that applies to the Seller or the provisions of any law or any agreement whatsoever that the Seller and/or any of the Companies in the Group are a party to, and do not require the approval or consent of any third party whomsoever, save those expressly cited in this Agreement. The Seller has not performed and does not know of any act that is liable to foil the fulfillment of this Agreement and there is no legal or contractual or other impediment precluding the fulfillment of all the Seller's undertakings under this Agreement, in full and on time.
- 4.7.5. Since the date of incorporation of the Seller, and of each of the Companies in the Group, they have been duly incorporated and there is no decision or dissolution order or winding-up order or receivership order or any similar order whatsoever, applicable to any thereof and, to the best of the Seller's knowledge, no person or body has the intention of demanding the dissolution, winding-up or receivership of the Seller and/or of any of the Companies in the Group, and, to the best of the Seller's knowledge, there is no reason and/or grounds that are liable to cause same.

4.7.6. True copies of the registration certificates, name change certificates, memoranda and articles of association and/or partnership agreements of each of the above, up-to-date as at the date of signing of this Agreement, are attached to the Agreement and marked as Appendices 4.7.6A – 4.7.6D.

4.8. **Directors and Shareholders**

4.8.1. A complete list of the directors of each of the Members of the Group that is a company (“the Directors”) and of the active contacts of the Partner Parties, is attached as Appendix 4.8.1 to this Agreement.

4.8.2. The Company’s Board of Directors does not have any committees whatsoever.

4.8.3. Apart from the agreement with the Partner Parties there is no shareholders agreement, voting agreement or any other agreement or other undertaking in connection with shares and/or rights, the holding thereof, the transfer thereof, restrictions on the transfer thereof, or the use of the rights granted by the power thereof (including the appointment of directors) that the Seller and/or any of the Members of the Group is a party to in all matters pertaining to the Members of the Group, including foundation agreements and/or voting agreements and/or cooperation agreements.

4.9. **Financial Statements**

4.9.1. Appendix 4.9.1 contains true copies of the Company’s audited financial statements, the audited financial statements of Ampal 1966, Ampal 1994 and Ampal 1998 for the years 2004, 2005 and 2006 and the Company’s financial statements as at March 31, 2007 and the audited financial statements of the Ramat Hahayal Partnership as at December 31, 2006 (hereinafter: “the Financial Statements”). The Financial Statements were prepared amid the consistent implementation of the accepted rules of accounting in Israel or the US (US GAAP) and they reflect, properly and in accordance with the accepted rules of accounting in Israel or the US, the corporate status of these companies, their assets and their liabilities, the results of their business activities and the changes in the cash flow and equity capital of each of them for the said years and for the three-month period that ended on March 31, 2007, respectively, as applicable, and they include all the allowance that must be made in accordance with the said rules.

- 4.9.2. Since March 31, 2007 no adverse change has occurred in the activity of the Members of the Group, their assets or their liabilities and the Members of the Group are conducting their business during the ordinary course of business, and as was customary at the said companies prior to March 31, 2007, and none of the Members of the Group has assumed any liability outside its normal course of business.
- 4.9.3. Save as detailed in Appendix 4.9.3, there is no legal proceeding or quasi-legal proceeding at any court, arbitration or before any judiciary body or quasi-judiciary body, that the Seller (with regard to the activity of the Members of the Group) and/or any of the Members of the Group is party to, there is no verdict or other material ruling by a court of law, arbitrator or judiciary body or quasi-judiciary body whatsoever, that the Seller or any of the Members of the Group is party to that has not been completed in full up to the date of signing of the Agreement.
- 4.9.4. Apart from the debt balance in favor of Ampal Israel in the sum of \$1,317,841 as at March 31, 2007 (which will be repaid by the Company to Ampal Israel on the Closing Date and on the occasion thereof), none of the Members of the Group has any agreement whatsoever and/or any undertaking whatsoever and/or any debt whatsoever vis-à-vis the Seller and/or interested parties in the Seller and/or officers in the Seller or any party affiliated therewith (excluding, to dispel all doubt, the Activity Companies), and any agreement, undertaking or debt as stated (if and insofar such exist) shall be null and void on the Closing Date.
- 4.9.5. On June 30, 2003, the Seller extended a loan in the sum of \$5,734,607 to Ampal 98, as per the Capital Note, a copy whereof is attached to this Agreement as Appendix 4.9.5.

4.10. **Guarantees and Credits**

- 4.10.1. The Holding Companies and the Activity Companies did not furnish any guarantees and/or undertakings to guaranty, apart from as detailed in this Agreement and apart from the guarantees that the Company gave to the Company's Customers.
- 4.10.2. The Seller did not furnish any guarantees and/or undertakings to guaranty the Company's debts and undertakings apart from as detailed in this Agreement.
- 4.10.3. Apart from as detailed in this Appendix 4.10.3 and as detailed in this Agreement, there is no third party that is a guarantor and/or that has undertaken to indemnify others in connection with and/or for any of the Members of the Group.

4.10.4. There are no loans and/or credits that were extended to Ampal Development or H.L. Management in favor of the Company, apart from the guarantees that were extended by Ampal Israel or, as relevant, H.L. Management or the Israel Corporation to the Company's Customers.

4.11. **Employees**

4.11.1. Appendix 4.11.1 includes complete details of the identity and salary composition of all of the employees of the Members of the Group, with the monthly remuneration paid to them, including all the benefits in respect whereof and including all the rights to the payment of a bonus, if and insofar as such exist, cost NIS 240,000 per annum in 2006 (in terms of employer's costs). True copies of all the employment agreements of the said employees, and all the documents related thereto, were given to the Buyer.

4.11.2. The Members of the Group are not a party to any collective agreements or collective arrangements.

4.11.3. All the payments, deductions and monetary deposits that the Members of the Group are obligated to perform and/or to pay, as applicable, to the employees of the Group and/or in connection therewith, under any law and/or agreement, in respect of the employment thereof and/or the termination of the employment thereof, for any period of employment thereof, were paid by the relevant Members of the Group and/or were deposited in the appropriate funds and/or were allowed in the Financial Statements.

4.12. **Bank Accounts**

Complete details of all the bank accounts of any type and kind whatsoever of the Members of the Group and all the balances thereof, are detailed in Appendix 4.12 to this Agreement. Apart from these bank accounts the Members of the Group do not have any additional bank accounts of any type and kind whatsoever.

4.13. **Insurance**

4.13.1. A list of the insurance policies in the framework of the Company and the Members of the Group are insured is detailed in Appendix 4.13.1 to this Agreement. The aforementioned insurance policies are valid, the premiums have in respect of the aforementioned insurance policies have been paid and are being paid in full and/or allowance in respect whereof are included in the most recent Financial Statements of the Members of the Group.

4.13.2. The Members of the Group will continue to pay the insurance premiums on time and shall not cancel any of the aforementioned insurance policies, until after the Closing Date of the deal.

4.14. **The Normal Course of Business, the Distribution of a Dividend and the Equity Capital Deficit**

4.14.1. Beginning on March 31, 2007 and until the Closing Date, no actions that deviate from the normal course of business was performed or will be performed at any of the Members of the Group, that were not given expression in this Agreement and no incident whatsoever that altered or is liable to materially and adversely alter the financial situation of any of the Members of the Group, either on its own or in conjunction with other incidents.

4.14.2. Beginning on March 31, 2007 and until the Closing Date, none of the Members of the Group has announced or distributed, and none of them shall announce or distribute, any dividend whatsoever, and none of them has conducted or will conduct any other distribution whatsoever to the shareholders and/or the partners therein, in which it will transfer monies or any payments whatsoever to them in any other fashion (save in respect of debts in existence on the date of signing of this Agreement, as per the terms thereof on the date of signing of this Agreement). There is no dividend that was announced by any of the Members of the Group and not yet been paid in full to the shareholders and/or the partners.

4.14.3. Beginning on March 31, 2007 and until the Closing Date, each of the Members of the Group will continue to conduct its business in the normal course of business, and will not assume any material undertaking and will not make any material administrative decision save for the purpose of fulfilling its undertakings under existing agreements.

4.15. **The Company's Customers**

4.15.1. Up-to-date wordings of the Company's Customers agreement pertaining to the Hod Hasharon Facility and the Rishon Lezion Facility are attached to this Agreement as Appendix 4.15.1A and 4.15.1B. Save as detailed otherwise in Appendix 4.15.1C, the Seller does not know of any material errors, or the granting of any unusual rights to the Company's Customers, in the framework of the Customer Agreements that preceded the said agreements and that could harm the Company or the future operation thereof.

4.15.2. Apart from the Tenants Lawsuit and as detailed in Appendix 4.15.2, the Seller (or the Company and the managers thereof) does not know of any intention on the part of the Company's Customers to file an additional lawsuit or additional lawsuits against the Company or in connection with the operation thereof.

4.16. **General**

4.16.1. The Seller is aware of the fact that its declarations and representations in the Agreement constitute the basis for the Buyer's entry into the Agreement and for the Consideration that the Buyer undertook to pay in this Agreement and the Seller declares that the declarations and representations in this Section 4 and in the Appendices thereto include every detail that is important to a reasonable investor purchasing the Sold Shares under this Agreement, and do not include any misleading detail (as the said term is defined in the Securities Law, 5718-1968 [sic] [translator's note – the Hebrew year 5718 began on September 26, 1957 and ended on September 15, 1958] or incorrect detail and affirms that the representations will be correct and will be in effect on the Closing Date as well, subject to a list of changes that will be attached by the Seller on the Closing Date and will be attached to this Agreement as Appendix 4.16.1.

4.16.2. All the Seller's declarations and representations in this agreement are cumulative and the forgoing in one or more thereof shall not derogate from the generality of any other representation, declaration or undertaking.

5. **The Buyer's Representations and Declarations**

Each of the Individuals of the Buyer hereby declares, undertakes and affirms vis-à-vis the Seller that all the representations and undertakings hereunder are correct and complete (insofar as they are known to the said the Individuals of the Buyer, or to the Buyer, as applicable):

- 5.1. The Phoenix is a company limited by shares registered in Israel in the books of the Registrar of Companies as a limited liability company whose number is 520017450.
- 5.2. Golden is a company limited by shares registered in Israel in the books of the Registrar of Companies as a limited liability company whose number is 513991380.
- 5.3. The Buyer has the complete authority to enter into this Agreement, and this Agreement is valid and binding on the Buyer under any law, subject to the approval by the Commissioner and the remaining Suspending Conditions.
- 5.4. The Buyer has performed due diligence on the Members of the Group, including examinations that the Buyer found necessary to perform and subject to the correctness and integrity of all the Seller's representations and the information that the Buyer received from the Seller, has found the Sold Shares, the Members of the Group and the operation thereof suitable for its needs.

- 5.5. The Buyer is purchasing the Sold Shares in accordance with and on the basis of the examinations that it performed as stated in Section 5.4 above subject to the Seller's representations, declarations and undertakings as stated in Section 4 above (the Seller's representations, declarations and undertakings shall be referred to hereinafter as: "the Representations") and subject to the correctness and integrity of the Representations and the fulfillment of all the Seller's undertakings in this Agreement, in full and on time, and the Buyer will have no contentions and/or claims and/or demands from the Seller.
- 5.6. Cancelled by agreement.
- 5.7. All the certified organs of each of the Individuals of the Buyer have approved the Buyer's contracting in this Agreement including all the Appendices thereto, and the fulfillment of all the Buyer's undertakings under this Agreement and, apart from these authorizations and the fulfillment of the Suspending Conditions mentioned in Section 3.1 above, the Individuals of the Buyer have no need, including as per the articles of incorporation thereof and under any law, to obtain any additional authorizations whatsoever for the purpose of entering into this Agreement and the fulfillment of all its undertakings thereunder, apart from the Commissioner's approval and the fulfillment of the remaining Suspending Conditions. The wording of the decisions by the certified organs of each of the Individuals of the Buyer is attached to this Agreement as Appendices 5.7A and 5.7B. Signed copies of the said decisions will be attached to this Agreement on the Closing Date.
- 5.8. The signatures of the signatories of this Agreement on the Buyer's behalf are binding on the Buyer, and this Agreement, including and all the terms thereof, are binding on the Buyer for all intents and purposes.
- 5.9. Apart from Bank Hapoalim's Authorization and the fulfillment of the remaining Suspending Conditions, there is no need for the consent and/or authorization of any third party whomsoever, including that of any government authority in Israel or abroad, for the Buyer's entry into this Agreement and for the fulfillment of all the Buyer's undertakings thereunder, in full and on time.
- 5.10. The Buyer is aware of the existence of a cumulative debt in the sum of \$1,317,841 (as at March 31, 2007) that the Company owes Ampal Israel, and that this debt, as it shall be on the Closing Date, will be paid by the Company to Ampal Israel on the occasion and on the Closing Date.

On the Closing Date the Buyer will provide the Company with monies that will enable the repayment of every debt detailed in this Section above, on the Closing Date. The provision of the monies by the Buyer will not affect the Consideration and the payment thereof and the payment of the Consideration under this Agreement does not constitute repayment of the aforementioned debt out of the Consideration, and it will be repaid as detailed above in this Section.

- 5.11. The Buyer's entry into this Agreement and the fulfillment of all the Buyer's undertakings thereunder in no way contravene and do not constitute a breach of any law whatsoever that applies to the Buyer (subject to obtaining the Commissioner's Approval and the fulfillment of the remaining Suspending Conditions) and/or of the documents of incorporation of the Buyer and/or of an administrative order and/or verdict and/or other decision that applies to the Buyer. The Buyer has not performed and does not know of any act that is liable to foil the fulfillment of this Agreement.
- 5.12. Since the date of incorporation of the Individuals of the Buyer, they have been duly incorporated and there is no decision or dissolution order or winding-up order or receivership order or any similar order whatsoever, applicable to any thereof and, to the best of the Buyer's knowledge, there is no reason and/or grounds that are liable to cause same.
- 5.13. The Buyer is in possession of the financial capability required in order uphold its undertakings under this Agreement.
- 5.14. All the Buyer's declarations and representations in this agreement are cumulative and the forgoing in one or more thereof shall not derogate from the generality of any other representation, declaration or undertaking.
- 5.15. The Buy is aware of the fact that its declarations and representations in the Agreement constitute the basis for the Seller's entry into the Agreement and declares that the declarations and representations in this Section 5 and in the Appendices thereto do not include any misleading or incorrect detail.

6. **The transaction**

Subject to the fulfillment of the Suspending Conditions detailed in this Agreement, the payment of the Consideration and the remaining terms and provisions detailed in this Agreement, the Buyer hereby undertakes to buy from the Seller (in equal parts among the Individuals of the Buyer) and the Seller hereby undertakes to sell and transfer to the Buyer (in equal parts among the Individuals of the Buyer) the Sold Shares and the Rights in the Capital Deed, Free and Clear.

7. **The Execution of the Agreement**

- 7.1. Each Party undertakes vis-à-vis the other Party to perform all the actions, to sign all the documents and to exercise all the voting rights and the powers of control of each Party, and to see that said rights and powers are exercised, in order to grant full effect to the terms of this Agreement and to carry out the provisions thereof on time.

7.2. Immediately after the signing of this Agreement the Parties will contact Bank Hapoalim in order to obtain Bank Hapoalim's Authorization. Should Bank Hapoalim's Authorization not be obtained by the First Performance Date, the Seller will be permitted, at its exclusive and unreserved discretion, but subject to the Buyer's consent (which shall not be withheld for unreasonable reasons) to act to replace the loans extended to the Company by Bank Hapoalim, including by means of obtaining other loans that fully or partially replace them from one of the other leading banks (or financial institutions), on terms that are no less favorable for the Company than those of the loan from Bank Hapoalim ("the Alternative Funding"), thereby obviating the need for obtaining Bank Hapoalim's Authorization which, from that day forward, will no longer be considered a Suspending Condition for the implementation of the transaction that is the object of this Agreement.

8. **Management of the Members of the Group during the Period between the Date of Signing of the Agreement and the Closing Date**

During the period between the date of signing of this Agreement and the Closing Date (and without prejudice to the remaining provisions of this Agreement pertaining to the said period):

- 8.1. The Seller will inform the Buyer in writing and in advance of any draft motion at the General Meeting and/or the Board of Directors of any of the Members of the Group.
- 8.2. The Seller will inform the Buyer in writing and in advance of any action and/or contractual arrangement and/or the provision of an undertaking by any the Members of the Group that is material and/or that is outside the normal course of business of any of the Members of the Group.
- 8.3. The Members of the Group will not pass any resolutions and/or perform actions and/or enter into contractual arrangements as stated in Section 8.2 above, save for the purpose of fulfilling and/or exercising their undertakings and/or their rights under existing agreements.
- 8.4. Without prejudice to the provisions of Section 8.3 above, the Members of the Group will not submit any document and will not commence or hold any proceeding (whether in a court of law or elsewhere) in the framework of the Tenants Lawsuit without the Buyer's consent (and the Buyer will give its consent within no more than seven days or within a shorter timeframe, noting the circumstances of the matter and the dates allocated by the court and will not refuse to grant its consent to any proceeding that is necessary in order to protect the rights of the Members of the Group for unreasonable reasons). To remove all doubt it is hereby clarified that the aforesaid does not constitute the assumption of any liability whatsoever on the part of the Buyer for the proceedings of the Tenants Lawsuit before the Closing Date.

9. **Closing Actions**

On the Closing Date the Parties will meet at the offices of M. Firon & Co, attorneys and notaries, at 16 Abba Hillel Street in Ramat Gan or at any other location to be agreed upon by the Parties, and will perform the following actions (with all the actions being considered integrated and performed simultaneously, and no action will be valid unless all the actions are was performed and completed together):

- 9.1. The Parties will present the Commissioner's Approval and Bank Hapoalim's Authorization to each other (insofar as its status as a Suspending Condition as stated in Section 7.2 above has not been cancelled), as is required in Section 3.1 above, which will be attached to his Agreement as Appendices 9.1.A and 9.1B, respectively.
- 9.2. The Seller will give the Buyer the following documents (and it is clarified that the documents detailed hereunder were made for the benefit of the Buyer, and the Buyer is permitted, according to its exclusive discretion, to waive in writing any of the documents detailed hereunder, in full or in part):
 - 9.2.1. An original copy of the decisions by the Seller's authorized organs, in the wording of Appendix 4.7, confirming the contractual arrangement between the Parties in the Agreement and of Ampal 1998 and Ampal 1994, confirming the transfer of the Sold Shares and the endorsement of the Capital Deed from the Seller to the Buyer,
 - 9.2.2. Original share transfer deeds, signed by the Seller, for the transfer of half of the Sold Shares from the Seller to each of the Individuals of the Buyer, in the wording attached hereto as Appendices 9.2.2A and 9.2.2B, and an original copy, duly signed, of the Shareholders Registry of Ampal 1994 and Ampal 1998, whereby each of the Individuals of the Buyer is registered as the holder of half of the Sold Shares, in the wording attached hereto as Appendices 9.2.2C and 9.2.2D.
 - 9.2.3. Letters of resignation and written waivers of claims on the part of all the directors at the Members of the Group, including Ms Irit Iluz and Mr. Yoram Firon of the Board of Directors of Ampal 1994, Ms Irit Iluz and Mr. Yoram Firon of the Board of Directors of Ampal 1998, Ms Irit Iluz and Mr. Yoram Firon of the Board of Directors of Ampal 1966, Messrs Jack Bijio, Amit Mantzour and Yoram Firon of the Company's Board of Directors, Messrs Jack Bijio, Amit Mantzour and Yoram Firon of the Board of Directors of the General Partner – Hod Hasharon, and letters of resignation of Messrs Jack Bijio, Amit Mantzour and Yoram Firon of the General Partner – Ramat Hahayal, attached hereto as Appendices 9.2.3A to 9.2.3E.
 - 9.2.4. Duly signed notices to the Registrar of Companies in connection with the transfer of half of the Sold Shares from the Seller to each of the Individuals of the Buyer, in the wording attached hereto as Appendices 9.2.4A and 9.2.4B.

- 9.2.5. The Seller will furnish the Buyer with a Deed of Endorsement of the Capital Deed from the Seller to the Buyer, in respect of the Capital Deed, such that the Buyer will be entitled to all the rights derived from the Capital Deed, including the right to repayment of the Capital Deed in accordance with the terms thereof, in the wording attached to this Agreement as Appendix 9.2.5, duly signed by the Seller.
- 9.2.6. The Seller will either furnish the Buyer with Bank Hapoalim's Authorization or furnish the Buyer with the Seller's notification stating that the Seller has acted in accordance with the foregoing in Section 7.2 above (including full details of the Alternative Financing).
- 9.2.7. The Seller will furnish the Buyer with the original authorization signed by the Seller defined in Appendix 4.16.1 with regard to the changes that have occurred, if and insofar as changes have occurred, in the Seller's Representations in Section 4 above.
- 9.3. The Buyer will give the Seller the following documents and will perform the following actions (and it is clarified that the documents detailed hereunder and the actions detailed hereunder are being performed for the benefit of the Seller, and the Seller is permitted, according to its exclusive discretion, to waive in writing any of the documents and/or actions detailed hereunder, in full or in part):
 - 9.3.1. Payment of the balance of the Consideration to the Seller, as defined in Section 10.3 hereunder.
 - 9.3.2. The Buyer will transfer to the Seller the entire sum of the debt as at the Closing Date as stated in Section 5.10 above, in order for the Company to be able to repay the entire said debt, as described in Section 5.10 above, once the said debt has been updated as at the Closing Date and the Company will repay the entire updated sum of the debt and will pay it to the Seller.
 - 9.3.3. Each of the Individuals of the Buyer will transfer to the Seller original copies of the authorized organs thereof, approving the entry into the Agreement by the Parties and the purchase of half of the Sold Shares from the Seller, which shall be attached to this Agreement as Appendices 5.7A and 5.7B.

10. **The Consideration**

- 10.1. In return for the Sold Shares and the endorsement of the Capital Deed, the Buyer will pay the Seller a sum in NIS equal to \$29,300,000 (twenty nine million and three hundred thousand United States dollars) in accordance with the Dollar Rate that is known on the actual date of payment (hereinafter: "the Consideration").

- 10.2. On or around June 17, 2007, the Buyer transferred the sum of \$1,000,000 (one million United States dollars) to the Seller as an advance on account of the Consideration (hereinafter: "the Advance"). Should the provisions of Section 3.2 above apply and should this Agreement not enter into effect as stated in the said Section, the Seller will return the sum of the Advance to the Buyer, as stated in Section 3.2 above.
- 10.3. The balance of the Consideration, in the sum of \$28,300,000 (twenty eight million three hundred thousand united states dollars) ((hereinafter: "the Balance of the Consideration")) will be paid to the Seller by the Buyer (in equal parts by each of the Individuals of the Buyer) by bank transfer to the Seller's bank account at the main branch of Bank Hapoalim, branch number 600, whose particulars will be given to the Buyer by the Seller up to three business days before the Closing Date. The Parties will act jointly on the Closing Date in order to obtain confirmation of the performance of the transfer from the transferring bank (or banks) and from the receiving bank.

11. **Indemnification in respect of the Guarantees to the Company's Customers**

- 11.1. Since the Seller and/or Ampal Israel and H.L. Management and/or the Israel Corporation have provided guarantees to the Company's Customers, and since the Seller and/or Ampal Israel have undertaken to indemnify H.L. Management and/or the Israel Corporation in respect of the guarantees to the Company's Customers that they provided, without prejudice to the Buyer's undertakings vis-à-vis the Seller under this Agreement, the Buyer undertakes to indemnify and/or compensate the Seller and/or Ampal Israel for any sum that the Seller and/or Ampal Israel is ordered to pay, by a verdict whose implementation was not suspended, to H.L. Management and/or the Israel Corporation and/or to any of the Company's Customers, in accordance with the Letters of Guarantee to the Company's Customers. The Seller and/or Ampal Israel will be entitled to indemnification as stated provided they notified the Buyer in writing of the demand for indemnification from H.L. Management and/or the Israel Corporation and/or any of the Company's Customers immediately upon receipt of the first demand of same, and have attached the letters of demand in accordance with the Guarantees, and all the relevant documents and information. The Seller and/or Ampal Israel will not pay the demand or claim or arrive at a settlement in connection thereto or transfer it to arbitration or mediation under Sections 79 (A) – (C) of the Courts Law, without obtaining the Buyer's advance and written consent and without enabling the Buyer to represent them and defend itself in their name in any proceedings, including by granting a power of attorney in all matters related to the demand or claim as stated.

The wording of the Letters of Guarantees to the Company's Customers and the list of Guarantees to the Company's Customers is attached hereto as Appendices 11.1A and 11.1B to this Agreement.

- 11.2. The Buyer agrees that in order to guarantee the Buyer's undertaking in all matters related to the undertakings vis-à-vis H.L. Management and/or vis-à-vis the Israel Corporation as stated in Section 11.1 above, the lien in favor of H.L. Management will remain in effect, and this for as long as the Buyer and H.L. Management have not arrived at another agreement in writing, signed by the Parties, or as long as the undertakings for which H.L. Financing's [sic] guarantees were given have not expired.
- 11.3. The Buyer agrees that in order to guarantee the Buyer's undertaking in all matters related to the undertakings vis-à-vis the Seller and/or vis-à-vis Ampal Israel as stated in Section 11.1 above, the lien in favor of Ampal Development will remain in effect, and this for as long as the Buyer and the Seller and/or Ampal Israel have not arrived at another agreement in writing, signed by the Parties, or as long as the undertakings for which the Seller's and/or Ampal Israel's guarantees were given have not expired.

12. **Special Provisions regarding the Tenants Lawsuit and regarding the Payment of the Capitalization Fee**

- 12.1. As of the Closing Date, the Buyer will assume the management of the Tenants' Lawsuit by the Company, but not the management of the Countersuit. The Seller's signature on this Agreement also constitutes the Seller's irrevocable consent, as of the Closing Date and thereafter, to cease the management of the Countersuit, whether in the framework of a settlement agreement or otherwise, immediately upon receipt of the Buyer's first demand to do so, for any reason and for no reason. Moreover, and even after the Closing Date, the Seller will continue to coordinate the entire proceeding in the framework of the Countersuit with the Buyer in accordance with its undertakings under Section 8.4 above. To remove all doubt it is hereby clarified that the aforesaid does not constitute the assumption of any liability whatsoever on the part of the Buyer for the management of the said Countersuit.
- 12.2. The Seller will cooperate with the Company and the Buyer will ensure that the Company and the Partnership cooperate with the Seller, and all of them together will act to the best of their ability to do all that is reasonably necessary in order to reduce the sum of the Capitalization Fee (as this term is defined in Section 4.6.2 above) which will have to be paid in a final manner to the Israel Land Administration, including by continuing the proceedings described in Section 4.6.2 above (hereinafter: "the Final Sum of the Capitalization Fee") as well as the fact that the one who will bear the Final Sum of the Capitalization Fee will be Uri and not the Partnership, and the foregoing in Appendix 12.2 to this Agreement will also apply.

13. **Indemnification and Liability for Representations**

- 13.1. Without prejudice to the provisions of Section 12.2, the Seller undertakes to indemnify the Buyer in respect of any payment, expense or damage, apart from indirect or consequential damage (jointly – “Damage”) that is incurred by the Buyer: [A] Should it become apparent that a representation that was given to the Buyer by the Seller in the framework of this Agreement is incorrect. [B] In consequence of any liability to pay that is created, or any payment that was made by the Company stemming from grounds, an act or an omission that took place on a date prior to the Closing Date, and which was not expressed in the Company’s Financial Statements or in respect whereof no allowance was made in the Financial Statements as stated, including and without prejudice to the generality of the aforesaid, in respect of income tax or VAT debts. However, it is clarified that in the matter the of income tax or VAT debts as stated, “damage” means only payments that the Company is ordered to pay to the relevant tax authorities, as per a peremptory ruling, in respect of the period up to December 31, 2006, and all also subject to the foregoing in the remaining subsections of this Section 13 hereunder (hereinafter: “the Indemnification of the Buyer”).
- 13.2. It is hereby clarified and agreed by the Buyer that the Indemnification of the Buyer will be limited to a sum of damages equal to 100% of the sum of the Consideration stated in Section 10.1 above and will apply only to sums of direct damage in excess of direct damage in the sum of \$1,500,000 (one million and five hundred thousand United States dollars) cumulatively and subject to the fact that the material inaccuracy of the relevant representation and the damage that was caused in respect whereof was discovered within 36 (thirty six) months from the date of signing of the Agreement.
- 13.3. It is likewise clarified and agreed by the Buyer that the Buyer will not be permitted to make any contention and/or claim and/or demand vis-à-vis the Seller and/or any party acting on the Seller’s behalf, in respect of damage as stated after three months have passed from the date of discovery of the significant and material incorrectness of any of the Representations as stated.
- 13.4. The Buyer declares and affirms that it will not be entitled to any compensation and/or indemnification from the directors at the Seller and/or from the directors on the Seller’s behalf who served on the Board of Directors and/or on the board of the Members of the Group, save in the case of criminal negligence, or God forbid, criminal acts.
- 13.5. Should the demand for indemnification stem from a claim by a third party, the Buyer will be entitled to indemnification as stated, provided it notified the Seller in writing of the demand for indemnification immediately upon receipt of the first demand in connection with the claim, with the addition of the letters of demand and all the relevant documents and information. Should the Seller assume full and unconditional Indemnification of the Buyer (or, as applicable, of a one of the Members of the Group) as stated, by written notice to the Buyer, the Buyer and/or the Members of the Group will not pay the demand or the claim and will not reach a settlement in connection therewith or transfer it to arbitration or mediation as per Section 79 (A) – (C) of the Courts Law, without obtaining the Seller’s advance and written consent. Under such circumstances, the Buyer will enable the Seller to represent it and/or the Members of the Group, to defend itself in their name in any proceedings, including by granting a power of attorney in all matters related to the demand or claim as stated.

13.6. Additionally, in cases where the damage that was incurred by one of the Members of the Group is insured (and, in this matter, the Buyer agrees to maintain insurance policies at the Activity Companies in a scope and on terms according to its discretion), the Buyer will notify the insurance companies of the damage and, if possible, will fulfill the demands by virtue of the policies for the activation of the insurance. The sums that are received from the insurance policies, after deduction of all the sums that are necessary in order to maintain the insurance policies in the condition thereof prior to the demand (including a discount due to an absence of claims) will be deducted from the sum of the indemnification that the Seller must pay the Buyer as per this Section.

14. **Taxes and Expenses**

14.1. Each of the Parties will bear all the tax payments applicable thereto in respect of the deal that is the object of this Agreement and/or in connection therewith.

14.2. Each Party exclusively will bear its expenses in connection with this Agreement and all matters stemming therefrom, including and without prejudice to the generality of the foregoing, the payment of attorneys' fees and consultants' fees.

15. **Confidentiality**

15.1. Until the Determining Date, and save as is required by law (including the application to the Commissioner), the Parties will maintain confidentiality with regard to this Agreement and the terms thereof.

15.2. Without prejudice to the generality of the foregoing in Section 15.1 above, it is agreed that a press release with regard to the drawing up of the Agreement and publication, up to the Closing Date and/or in connection with the closing of the deal that is the object of this Agreement, among the Residents of the Facilities in Rishon Lezion and Hod Hasharon, with regard to the drawing up of the Agreement and/or in connection with the negotiations for the drawing up thereof, will be made amid advance and written coordination between the Parties, and all apart from the notice that the Seller and/or any of the companies affiliated thereto, including Ampal American Israel Corporation is required to give according to US law, and which will be worded thereby according to their discretion.

16. **Miscellaneous**

- 16.1. No conduct on the part of either of the Parties shall be deemed a waiver of any of the rights thereof under this Agreement or under any law, or as a waiver, or as consent on the part thereof to any breach whatsoever or the non-fulfillment of any term whatsoever, unless the waiver, consent, postponement, change, cancellation or addendum was made expressly and in writing and signed by the said Party.
- 16.2. In the relations between the Parties to this Agreement and the Substitutes thereof, the provisions of this Agreement shall take precedence over the provisions of any conditional law.
- 16.3. No changes or amendments in this Agreement shall be valid unless they were made in a written document signed by all the Parties to this Agreement.
- 16.4. This Agreement, upon the signing thereof, contains all the accords and/or understandings between the Parties in connection with the topics mentioned therein, unless otherwise stated in this Agreement, and it cancels all the documents that were exchanged between the Parties prior to the signing thereof.
- 16.5. The Parties to this Agreement participated together in the negotiations and in wording this Agreement. In the event of a lack of clarity or a question with regard to the meaning or interpretation of any given section, this Agreement will be interpreted as having been worded by all the Parties and no conclusion will be drawn or burden of proof imposed for or against any Party whatsoever by virtue of the fact that a given provision of the Agreement was worded by that Party.
- 16.6. This Agreement and any matter related to this Agreement and stemming therefrom, including, without prejudice to the generality of the aforesaid, the interpretation and/or execution and/or breach and/or validity and/or legality and/or annulment thereof, will be governed solely, exclusively and absolutely by the laws of the State of Israel.
- 16.7. The Parties have selected the competent Tel Aviv District Court in the exclusive and sole jurisdiction between them for any matter involving and related to this Contract [sic], the execution thereof, the interpretation thereof etc.
- 16.8. This Agreement may be signed by any given Party by facsimile and such a signature will be binding for all intents and purposes.

17. **Addresses and notices**

- 17.1. The addresses of the Parties to this Agreement are as specified in the Preamble thereto.
- 17.2. Any notice sent by registered mail to the address of one of the Parties in the Preamble (or any other address announced by the Party in writing to the other Party) shall be deemed to have reached the addressee within 72 hours from the time it was sent and, if delivered by hand, at the time of delivery thereof. Any notice sent by facsimile shall be deemed to have reached its destination within one business day from the time of transmission thereof. Notice to the Buyer will be sent with a copy to Ehud Arad, Attorney at Law, from the Yossi Avraham, Arad & Co law office, 3 Daniel Frish Street, Tel Aviv (fax: 03-6963801) and notices to the Seller will be sent with a copy to Raphael Melman, Attorney at Law, from the Firon & Co law office, 16 Abba Hillel Silver Street, Ramat Gan (fax: 03 – 7540011).

And in witness whereof the Parties have signed these presents

The Seller:

/s/ Irit Eluz
/s/ Yoram Firon

Ampal Industries Inc

The Buyer:

/s/ Yaheli Shefi
/s/ Daniel Vaknin

**The Phoenix Investment
and Finance Company Ltd**

/s/ Yitzhak Meyuhas
/s/ Sharon Bar

**Golden Meybar
(2007) Ltd**

I, the undersigned, Raphael Melman, Adv, of 16 Abba Hillel Silver Street, Ramat Gan, hereby confirm that the aforementioned Agreement was duly signed by Ampal Industries Inc ("the Seller") by means of Ms Irit Eluz and Mr. Yoram Firon, who were authorized to sign the aforementioned Agreement in the name of the Seller, in accordance with the Seller's Articles of Incorporation.

/s/ Raphael Melman

Raphael Melman, Adv.

I, the undersigned, Michal Noy, Adv, of 53 Derech Hashalom st., Givatayim, hereby confirm that the aforementioned Agreement was duly signed by Phoenix Holdings Ltd ("the Phoenix") by means of Yaheli Shefi and Daniel Vaknin, who were authorized to sign the aforementioned Agreement in the name of the Phoenix, in accordance with the Phoenix's Articles of Incorporation.

/s/ Michal Noy

Michal Noy (Ginusar), Adv

I, the undersigned, Yael Dayan, Adv, of 38, Hamasger st., Tel Aviv, hereby confirm that the aforementioned Agreement was duly signed by Golden Meybar 2007 Ltd ("Golden") by means of Yitzhak Meyuhas and Sharon Bar, who were authorized to sign the aforementioned Agreement in the name of Golden, in accordance with Golden's Articles of Incorporation.

/s/ Yael Dayan

Yael Dayan, Adv

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

SCHEDULE SETTING FORTH COMPUTATION OF LOSS PER SHARE OF CLASS A STOCK

SIX MONTHS ENDED JUNE 30,	2007	2006
(Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
BASIC EPS		
Net Loss as reported	\$ (8,212)	\$ 806
Gain per Class A Share	\$ (0.17)	\$ 0.03 ⁽¹⁾
Weighted average number of shares used in calculation (in thousands)	47,574	20,701
DILUTED EPS		
Net Loss as reported	\$ (8,212)	\$ 806
Gain per Class A Share	\$ (0.17)	\$ 0.04
Weighted average number of shares used in calculation (in thousands)	47,574	22,548

(1) After deduction of accrued preferred stock dividends of \$90 thousand.

CERTIFICATION

I, Yosef A. Maiman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ampal – American Israel Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Yosef A. Maiman

Yosef A. Maiman
Chairman of the Board
President and Chief Executive Officer

Date: August 8, 2007

CERTIFICATION

I, Irit Eluz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ampal – American Israel Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Irit Eluz

Date: August 8, 2007

Irit Eluz
CFO and Senior Vice President –
Finance and Treasurer

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Ampal-American Israel Corporation (the "Company") on Form 10-Q for the period ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned executive officers of the Company certifies, to the best of such executive officer's knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Yosef A. Maiman

Yosef A. Maiman
Chairman of the Board,
President and CEO
Ampal-American Israel Corporation
August 8, 2007

/s/ Irit Eluz

Irit Eluz
CFO and Senior Vice President
Finance and Treasurer
Ampal-American Israel Corporation
August 8, 2007

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.