

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

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

For the fiscal year ended December 31, 1998

OR

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

For the transition period from _____ to _____

Commission file number 0-538

AMPAL-AMERICAN ISRAEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

NEW YORK
(State or Other Jurisdiction of
Incorporation or Organization)
No.)

13-0435685
(I.R.S. Employer
Identification

1177 AVENUE OF THE AMERICAS, NEW YORK, NEW YORK
(Address of Principal Executive Offices)

10036
(Zip Code)

Registrant's telephone number, including area code: (212) 782-2100.

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

EXCHANGE	TITLE OF EACH CLASS -----	NAME OF EACH ON WHICH REGISTERED -----
Class A Stock Exchange		American Stock

Warrants to purchase shares of Class A Stock American Stock Exchange

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

Class A Stock
4% Cumulative Convertible Preferred Stock
6 1/2% Cumulative Convertible Preferred Stock
(Titles of Classes)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange

Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

The number of shares outstanding of the issuer's Class A Stock, its only authorized common stock, is 24,114,062 (as of March 18, 1999).

The aggregate market value of the voting stock held by non-affiliates of the registrant is 27,071,325 (as of March 18, 1999).

**ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998
OF AMPAL-AMERICAN ISRAEL CORPORATION
PART I**

ITEM 1. BUSINESS

As used in this report (the "Report"), the term "Ampal" only refers to Ampal-American Israel Corporation, the parent company; the term "Company" refers to Ampal and its consolidated subsidiaries. Ampal is a New York corporation founded in 1942.

For industry segment financial information and financial information about foreign and domestic operations, see Note 13 to the Company's consolidated financial statements included elsewhere herein.

The Company acquires interests in businesses located in the State of Israel or that are Israel-related. The Company seeks to invest in companies which have long-term growth potential. The Company is involved in a broad cross-section of Israeli companies engaged in various fields including high technology and communications, hotels and leisure-time, real estate, finance, energy distribution and industry. The Company generally participates in the management of its investee companies through representation on boards of directors and otherwise.

In order to identify investment opportunities in the Israeli market, the Company is active in those sectors where it believes that the Israeli market has a competitive advantage in the global market. Currently, the Company has identified the Israeli high-technology and communications sector as having attained world-class stature. As a result, in January, 1998 the Company made the largest investment in the Company's history, an investment of \$110 million for the purchase of a one-third interest (subsequently reduced to 25%) in the shared networks operations of Motorola Communications Israel, Ltd. ("Motorola Israel"). Furthermore the Company invested an additional amount of approximately \$7.3 million during 1998 in other entities in the high-technology and communications sector. These new investments represent the Company's principal investments in 1998 as well as a cornerstone in the Company's strategic planning for the future. The Company expects to continue its activities in this sector.

The Company is constantly attempting to identify and take advantage of other Israeli business sectors which have attained world-class stature. Similarly, the Company constantly evaluates its investments in order to determine which investments do not meet these standards or do not have attractive growth potential. The Company will then attempt to divest itself of such investments.

The Company competes for investment opportunities with other established and well-capitalized investing entities. There can be no assurance that suitable opportunities will continue to be available to the Company at valuations and on terms which are favorable.

Listed below by industry segment are the Company's most significant investees, the principal business of each and the percentage of equity owned, directly or indirectly, by Ampal. The table below also indicates whether the investee is listed on the American Stock Exchange ("AMEX"), Nasdaq Stock Market ("NASDAQ") or the Tel Aviv Stock Exchange ("TASE"). For further information with respect to the more significant investee companies, see below. For additional information concerning the investee companies, previous 10-K forms of Ampal are herein incorporated by reference.

INDUSTRY SEGMENT	PRINCIPAL BUSINESS	PERCENTAGE AS OF DECEMBER 31, 1998
HIGH TECHNOLOGY AND COMMUNICATIONS		
A.T.V. Broadcasting Ltd.	Arabic Cable Channel	24.9
Breezecom Ltd.	Wireless Local Area Network	8.3
Clalcom Ltd.	Communications	0.7
Comfy Interactive Movies Ltd. (TASE)	Computer Technology for Children	2.2
Compugen Ltd.	Bioinformatics	1.8
Fundtech Ltd. (NASDAQ: "FNDF")	Banking Software	1.5
Medco Electronics Systems Ltd.	Medical Device for Cardiac Problems	15.4
MIRS Communication Company Ltd.	Wireless Communications Service Provider	25.0
M-Systems Flash Disk Pioneers Ltd. (NASDAQ: "FLSHF")	Data Storage Material	0.5
Mutek Solutions Ltd.	Develops Software for Servers	8.8
NKO, Inc.	Facsimile Transmission	3.0(1)
Ortek Ltd.	Electro-optical Devices	24.9
PowerDsine Ltd.	Telecommunications Components	11.9
Qronus Interactive Israel (1994) Ltd.	Software Quality Products	9.5
Shellcase Ltd.	Packaging Process for Semiconductor Chips	11.0
Shiron Satellite Communications (1996) Ltd.	Satellite Modems and Fast Internet Access	12.0
Smartlight Ltd.	X-Ray Film Digital Viewer	9.0
Trinet Venture Capital Ltd.	Venture Capital Fund	50.0
Logal Software and Educational Systems Ltd. (NASDAQ: "LOGLF")	Educational Software	2.9(2)
NetformX, Ltd.	Computer Systems, Software and Hardware	21.0(2)
Peptor Ltd.	Pharmaceutical Products	0.6(2)
Smart-Link Ltd.	Multimedia	18.3(2)
Unic View Ltd.	Projection Television System	5.9
VisionCare Ophthalmic Technologies Ltd.	Advanced Optical Products	5.1
XaCCT Technologies Ltd.	TCP/IP Network Software	18.4
REAL ESTATE		
Ampal Development (Israel) Ltd.	Holding Company and Commercial Real Estate	100.0
Ampal Financial Services Ltd.	Holding Company and Commercial Real Estate	100.0
Ampal (Israel) Ltd.	Holding Company and Commercial Real Estate	100.0
Ampal Realty Corporation	Commercial Real Estate	100.0
Bay Heart Limited	Shopping Mall Owner/Lessor	37.0
Etz Vanir Ltd. and Yakhin Mataim Ltd.	Citrus Groves	50.0(3)
Frenkel Lefkowitz & Co.	Real Estate	20.0
Nir Ltd.	Holding Company and Commercial Real Estate	99.9
Ophir Holdings Ltd. ("Ophir")	Holding Company	42.5
Combox Ltd.	Data Transmission Systems	8.0(4)
Courses Investment in Technology Ltd.	Venture Capital Fund	4.6(4)
Elpas Ltd.	Products Based on Data Communication Technologies	4.4(4)
Industrial Buildings Corporation Ltd. (TASE)	Industrial Real Estate	5.6(4)
Memco Software Ltd. (NASDAQ: "MEMCF")	Computer Security Software Products	3.9(4)
Nogatech Inc.	Video Communication Compression Technology	3.0(4)
Romidot Ltd.	Optical Checking Instruments	4.0(4)
Shmey-Bar Group	Commercial Real Estate	7.1(4)
Soliton Ltd.	Internet Safeguard Program	7.1(4)
ENERGY DISTRIBUTION		
Granite Hacarmel Investments Ltd. (TASE)	Distribution of Refined Petroleum Products	19.1
HOTELS AND LEISURE-TIME		
Coral World International Limited	Underwater Observatories and Marine Parks	50.0
Country Club Kfar Saba Limited	Country Club Facility	51.0
Hod Hasharon Sport Center (1992) Limited Partnership	Country Club Facility	50.0
Moriah Hotels Ltd.	Hotel Chain	46.0(5)
FINANCE AND OTHER HOLDINGS		
Am-Hal Ltd.	Senior Citizen Facilities	50.0
Bank Leumi Le'Israel Ltd.	Israeli Commercial Bank	0.9
Epsilon Investment House Ltd.	Investment House	20.0
Renaissance Israel	Investment Fund	15.0

INDUSTRY SEGMENT -----	PRINCIPAL BUSINESS -----	PERCENTAGE AS OF DECEMBER 31, 1998 -----
INDUSTRY		
Carmel Container Systems Limited (AMEX: "KML")-----	Packaging Materials and Carton Production	20.7
M.D.F. Industries Ltd.-----	Medium Density Fiber Products	50.0
Paradise Industries Ltd.-----	Mattresses and Fold-out Beds	85.1

(1) As of January 1999, the company no longer has an interest in NKO, Inc.

(2) As of December 31, 1998, Trinet Venture Capital Ltd., held the following percentage interests:

Logal Software and Educational Systems Ltd.-----	
5.7%	
NetformX Ltd.-----	
29.6%	
Peptor Ltd.-----	
1.2%	
Smart-Link Ltd.-----	
35.2%	

The Company's percentage of the above companies reflects 50% of Trinet's ownership plus any direct holdings.

(3) Please refer to "Legal Proceedings."

(4) As of December 31, 1998, Ophir Holdings Ltd. held the following percentage interests:

Combox Ltd.-----	
18.8%	
Courses Investment in Technology Ltd.-----	
5.0%	
Elpas Ltd.-----	
10.4%	
Industrial Buildings Corporation Ltd.-----	
13.3%	
Memco Software Ltd.-----	
9.3%	
Nogatech, Inc.-----	
7.1%	
Romidot Ltd.-----	
9.4%	
Shmey-Bar (I.A.) 1993 Ltd., Shmey-Bar (T.H.) 1993 Ltd. and Shmey-Bar Real Estate 1993 Ltd.-----	
16.7%	
Soliton Ltd.-----	
16.6%	

The Company's percentage of the above companies reflects 42.5% of Ophir's ownership plus any direct holdings.

(5) Please refer to "Recent Developments" and "Moriah Hotels Ltd."

SIGNIFICANT RECENT DEVELOPMENTS SINCE BEGINNING OF LAST FISCAL YEAR

On January 25, 1999, the Company accepted a tender from Koor Tourism Enterprises (which tendered, jointly with the Sheraton International chain) for the acquisition of the Radison Moriah Hotels chain ("Moriah"), the Company's 46%-owned affiliate, for \$37.5 million. This transaction was approved by Israel's Anti-Trust Commissioner. If the aforementioned transaction is consummated, the Company will record a gain on sale in the amount of approximately \$12.4 million (\$8 million, net of income taxes). In the event that Moriah distributes dividends prior to the completion of the sale, the sales price will be adjusted by the amount of the dividends received.

Hapoalim approached Ampal to commence negotiations regarding the potential purchase by Ampal and its subsidiaries of Hapoalim's entire holdings in Ampal. In connection with the proposed transaction, Ampal's Related Party Transactions Committee approved on March 22, 1999 to continue the negotiations with Hapoalim to acquire the entire Hapoalim holdings in Ampal in exchange for consideration consisting of cash and certain real estate properties currently leased to Hapoalim.

HIGH TECHNOLOGY AND COMMUNICATIONS

BREEZECOM LTD. ("BREEZE")

In June 1995, the Company invested \$1 million to acquire a 13.6% equity interest in Breeze. The Company's interest was diluted to 8.3% in 1997 due to the issuance of shares by Breeze.

Breeze, formerly known as Lannair, Ltd., is an Israeli company which develops, manufactures and markets wireless local area networks ("LANS") for computers and wireless local loop network (wvl) using license-free, spread spectrum radio technology. Breeze's product strategy focuses on two product lines, wireless LANS for personal computers and notebooks and wireless remote bridges and modems. Breeze has a distribution network with more than 100 distributors in 45 countries. It has a United States subsidiary which develops, sells and provides support to customers on the American continent.

Breeze tripled its sales during 1998 to \$32 million.

Compugen Ltd. ("Compugen")

In 1998 the Company invested \$1 million for a 1.8% equity interest in Compugen an Israeli bioinformatics corporation which engages in the development of algorithms and models for the interpretation of biological processes. Ampal's investment was part of an approximately \$15 million round of financing of Compugen by Clal Biotechnology Industries Ltd., Evergreen and Hapoalim Investments Ltd. ("INV"), based on a company valuation of \$44 million.

FUNDTECH LTD. ("FUNDTECH")

In April, 1997, Ampal purchased a 2.2% interest in Fundtech, for a purchase price of \$750,000. Fundtech is an Israeli company which designs, builds and sells payment systems to financial institutions and their customers, using advanced technology and innovative human engineering. In March 1998, Fundtech completed a public offering of its shares. As a result of the offering, the Company's equity interest in Fundtech was reduced to 1.5%.

MEDCO ELECTRONICS SYSTEMS LTD. ("MEDCO")

The Company purchased a 15.4% interest in Medco for \$598,000. Medco completed the development of the FEMO, its fetal monitoring device. The FEMO enables the pediatrician to view a fetal ECG and is currently the only device available for such purpose. During 1998, Medco started selling the device for research purposes and has filed for FDA approval. Medco was unable to raise the capital required for operating expenses, as a result, it has ceased operations, and shareholders are seeking a buyer for the company or its technology. As a result of the forgoing the Company wrote off this investment.

MIRS COMMUNICATION COMPANY LTD ("MIRS")

On January 22, 1998 (the "Closing Date"), Ampal Communications, Inc. ("Communications"), a Delaware corporation and a wholly-owned subsidiary of Ampal, completed its purchase of a one-third interest (subsequently reduced to 25%) in the assets of the shared networks operation ("SNO") of Motorola Israel, an Israeli corporation, for a purchase price of \$110 million. The purchase was made pursuant to a Purchase and Sale Agreement, dated January 5, 1998, between Motorola Israel and Communications. The Purchase and Sale Agreement, as amended, is referred to as the "Purchase Agreement." In addition to the purchase price, Communications paid Motorola Israel \$280,000 for interest on the purchase price that accrued between the date of the Purchase Agreement and the closing of the transaction.

In March 1998, Communications transferred its interest to a limited partnership (the "Partnership"). A wholly-owned Israeli subsidiary of Communications (the "General Partner") is the general partner of the Partnership and owns 75.1% of the Partnership. The limited partners of the Partnership purchased their interests in the Partnership from the Partnership and include (i) an entity owned by Daniel Steinmetz and Raz Steinmetz (directors of Ampal and the controlling persons of Ampal's principal shareholder), which acquired a 9.1% interest in the Partnership for \$10 million, (ii) Hapoalim, which acquired a 7.45% interest in the Partnership for \$8.195 million, (iii) an unrelated third party mezzanine fund, which acquired a 7.45% interest in the Partnership for \$8.195 million, and (iv) an entity owned by Dr. Yehoshua Gleitman, Ampal's Chief Executive Officer, which purchased a .9% interest for \$1 million. In addition to the purchase price, the limited partners also reimbursed the Company for their pro rata share of the expenses incurred by the Company in connection with the original purchase from Motorola Israel (including interest from the date of the Purchase Agreement until the purchase date of the limited partnership interests).

In 1998, MIRS focused its efforts on establishing its position as a radio communications operator which provides its customers with an integrated communications solution and the widest variety of communication services at the highest level of quality. In spite of the difficult economic environment in the Israeli market and the accelerated competition with cellular operators, MIRS managed to double its customer base in 1998 to more than 100,000 subscriber units.

The revenue for the year reached approximately \$100 million and MIRS managed to achieve its goals as formulated in its business plan.

In anticipation of competition in 1999, MIRS re-aligned its sales force dividing it into two parts: the direct and the indirect. Both parts of the sales force aim to retain and cultivate relationships with the company's customers, to further increase sales and to reduce churn rate.

1998 was a marketing breakthrough year for MIRS. An intensive effort was made to penetrate the Israeli market. Initiatives included the i1000 (Leader) advertising campaign; the marketing of a wide range of service packages to meet the needs of the business sector; the introduction of value added services such as Business Networks, Direct Dialing, Hebrew Short Messages Service and Split Bill for customers who wish to separate their business and private expenses and offering leasing packages.

In 1998 the Customer Retention Center served as the primary contact for efficient customer service and the Telephone Collection Center was established to streamline the collection process.

Two new delivery methods were implemented in 1998: direct delivery and immediate delivery from the salesperson's trunk. Successful implementation resulted in improved levels of customer satisfaction. The new On-Line Customer Credit Approval Center improved the order approval process and reduced cycle time.

In 1999 MIRS will further enhance its positioning as the best-in-class integrated system, which provides the ultimate solution (private calls, group calls, telephone SMS and data) for the business and executive accounts sectors.

In order to further improve system performance, MIRS will continue to invest in its infrastructure to provide better system coverage. MIRS is developing a second system control center which will provide full backup for the dispatch service in case of a major outage.

The overall share of the Company in dividends from the two MIRS entities was \$1.2 million, out of which \$900,000 were declared and paid in March, 1999.

1999 is expected to be the beginning of the Data Era. Anticipating demand, the infrastructure required for packet data services will be installed. Packet data is the new generation of circuit data which has the capacity to transmit data at very high rates. Data applications will include horizontal applications such as e-mail and internet as well as vertical applications designed to meet customer needs.

MEMCO SOFTWARE LTD. ("MEMCO")

The Company owns a 3.9% interest in Memco through Ophir. Memco, which underwent an initial public offering in October 1996, develops and markets comprehensive information security products designed to protect and manage access to critical information assets and system resources in distributed computing environments.

On August 13, 1998, a merger agreement was signed between Memco and Platinum Technology Inc. ("Platinum"), a U.S. corporation which was a shareholder of Memco. Under that agreement, Memco will become wholly owned by Platinum and Platinum will issue its shares to Memco shareholders, at a ratio of 0.836 Platinum share for one share of Memco. The merger received the required authorities' approval.

As part of the merger agreement, Memco shareholders (including Ophir) have undertaken not to sell Memco shares until the merger procedures are completed.

Memco's Shares are listed on NASDAQ under the symbol MEMCF.

MUTEK SOLUTIONS LTD. ("MUTEK")

In October 1996, the Company purchased a 7.2% interest in Mutek for \$750,000. Mutek, which was founded in 1996, is a developer of innovative software development tools. Mutek is active in the fields of code instrumentation, abstract interpretation, semantic analysis and others. Its products include BugTrapper™, an automatic tracing system, AutoPar™, a tool for transforming sequential programs written in FORTRAN-77 into parallel programs with explicit message passing directions, and BugPredictor™, a powerful tool for static debugging.

The Company invested \$700,000 in Mutek in the second quarter of 1998, increasing its interest to 8.8%. The Company decided to write down its investment in Mutek by \$700,000 in 1998.

NETFORMX, LTD. ("NETFORMX") (Formerly ImageNet Ltd.)

The Company has a 21% equity interest directly and indirectly through Trinet and Ophir in NetformX. NetformX develops and markets the award winning CANE(R) family of network design, analysis and simulation tools. CANE, the emerging standard in Computer Aided Network Engineering, is the only integrated, end-to-end, multi-layer, network design tool on the market. NetformX's strategy is to help its customers design and maintain sophisticated computer networks. Using CANE, network and system integrators and network managers design, simulate and analyze efficient, reliable networks quickly and easily. CANE is a highly sophisticated package built from the ground up to resolve network chaos and manage the accelerating pace of network change while reducing network equipment, consulting and staff costs.

NKO, INC. ("NKO")

In June 1997, the Company purchased a 3% interest in NKO for \$1 million. NKO is developing a unique "fax-over-data" network technology for long distance fax transmission services. NKO is a subsidiary of Clalcom Ltd., an Israeli telecommunication company. The Company's share in NKO was sold during January 1999 for \$1.1 million.

ORTEK LTD. ("ORTEK")

In September 1997, the Company acquired a 24.99% interest in Ortek for \$500,000. Ortek is a developer and manufacturer of electro-optical devices and systems for the military and civilian markets. Ortek is a subsidiary of ELOP Electro-Optical Industries Ltd., the industry leader in electro-optics in Israel. A related party of Ampal also owns a 24.99% interest in Ortek. In 1998, the Company wrote down its investment in Ortek.

POWERDSINE LTD. ("POWERDSINE")

In August 1997, the Company invested \$2 million to acquire 12.5% of PowerDsine, an Israeli company specializing in the development, manufacture, marketing and sale of unique, innovative modules and components for the telecommunications industry. PowerDsine recently introduced its first line of off-the-shelf products - telephone ring generators - and is marketing them in North America, Europe and Asia. Additional products are currently being designed. During 1998 the Company invested an additional amount of \$1 million by way of exercising an option granted to the company during the initial purchase of PowerDsine's shares. The Company decided not to exercise its full preemptive rights in the last round of financing of PowerDsine and therefore its interest in PowerDsine was reduced to 11.9%.

QRONUS INTERACTIVE ISRAEL (1994) LTD. ("QRONUS")

In 1994, Qronus was established to develop and sell a non-intrusive automated software testing tool embedded and non-standard systems. The key target markets for Qronus' technology are medical systems, industrial automation and instrumentation, point-of-sale and other non-standard client-server applications, telecommunications, military and aerospace. In the first quarter of 1998, Qronus raised \$4 million in a private offering and is negotiating a long-term strategic relationship with a major point of sale manufacturer.

In the first quarter of 1998, the company invested an additional \$325,000 in Qronus. The Company, as of December 31, 1998, owned a 9.5% interest in Qronus.

SHELLCASE LTD. ("SHELLCASE")

In November 1997, The Company purchased an 11% interest in Shellcase for a purchase price of \$2,000,000. Shellcase has developed a packaging process for computer chips. These packages are the smallest available to the computer industry.

SHIRON SATELLITE COMMUNICATIONS (1996) LTD. ("SHIRON")

In November 1997, the Company purchased a 12% interest in Shiron for a purchase price of \$1,250,000. Shiron is developing a line of satellite modems which achieve high data rates, designed to answer the requirements of satellite data and voice applications such as rural telephony, video conferencing and other applications. In addition, Shiron is developing a two-way fast internet access via satellite systems.

Shiron's system employs an additional up-link channel while competing systems provide only download capability. Shiron completed its initial phase of product development in 1998 and anticipates commercial roll-out in 1999.

SMARTLIGHT LTD. ("SMARTLIGHT")

In 1998, the Company invested \$2.5 million to acquire a 9% interest in SmartLight. SmartLight is a manufacturer and marketer of computerized x-ray viewers. SmartLight's viewers provide physicians and technicians with images which are up to 50% richer in detail.

SmartLight anticipates significant growth in sales in 1999.

SMART-LINK, LTD. ("SMART-LINK")

In 1995, Trinet invested \$900,000 for a 51% interest in Smart-Link Ltd., a developer and marketer of multimedia products. In 1996, Trinet increased its holdings in Smart-Link to 60.1% through an investment of an additional \$600,000. Between November 1996 and April 1997, other investors invested or committed to invest \$4 million in Smart-Link. An additional \$3 million was invested in Smart-Link in the fourth quarter of 1998. The Company and INV participated in exercising Trinet's preemptive rights. The Company's current equity, including its respective holding through Trinet, is 18.3%.

TRINET VENTURE CAPITAL LTD. ("TRINET")

In February 1994, the Company and INV, established Trinet, a venture capital fund for investments in high-technology ventures in Israel including start-up entities. Each of the Company and INV had committed to invest up to \$2.5 million in Trinet. In 1996, the commitment was increased by \$4 million (\$2 million each).

Between 1995 and 1998 Trinet invested in several high-technology companies including Netformx and Smart-Link (as aforementioned), Logal Software and Educational Systems Ltd., Nulan Technologies Ltd., Peptor Ltd., and Comfy Interactive Movies Ltd., the latter of which was sold during 1998.

Since the amounts committed by the shareholders were fully invested, the Chief Executive Officer of Trinet resigned during the first quarter of 1998, and Trinet's holdings are currently being managed by Ophir. See "Ophir Holdings Ltd."

UNIC VIEW LTD. ("UNIC VIEW")

In March 1997, the Company invested \$1 million to acquire a 7.3% interest in Unic View. The Company did not participate in Unic View's last round of financing, resulting in its equity in Unic View being reduced to 5.9%. Unic View is a manufacturer and marketer of a liquid screen display projector for video, large-screen television and computer projection systems and a developer of a new projector engine for home use.

VISIONCARE OPHTHALMIC TECHNOLOGIES LTD. ("VISIONCARE")

In March 1997, the Company invested \$250,000 to acquire a 5.1% interest in VisionCare. VisionCare is developing and marketing ophthalmic implantable products that give patients better, more natural visual function. VisionCare's first product is a patented intraocular telescopic lens for treatment of macular degeneration. Initial clinical trials have been successful and VisionCare's production facility has received ISO-9001 certification. During the last quarter of 1998, VisionCare met all its milestones, therefore the Company and other first round investors completed the commitment to invest in VisionCare. The Company's share in such investment was \$279,000. Visioncare is currently negotiating a private placement based on the company's valuation of more than \$20 million.

XACCT TECHNOLOGIES LTD. ("XACCT")

Ampal's original investment in XaCCT, made in June 1997, was \$400,000 for an 9.8% interest. On March 2, 1998, Ampal invested an additional \$838,000 and increased its equity interest to 19.3%. By the end of 1998, the Company invested an additional amount of \$1.3 million which included its respective preemptive rights during the third round of financing. Participating in this \$7.5 million third round of financing were two U.S. based venture capital funds which enhances the Company's profile in the United States. As a result of the third round financing the Company's interest in XaCCT was reduced to 18.4%. XaCCT has developed billing, auditing and accounting software for TCP/IP networks. This

software allows such networks to generate reports of networks transactions and services. XaCCT has successfully installed its software at 15 sites worldwide, as beta-testing sites. XaCCT was selected to be among the top 25 startups of 1998 by Data Communication Magazine.

REAL ESTATE

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

AMPAL DEVELOPMENT (ISRAEL) LTD. ("AMPAL DEVELOPMENT"), NIR LTD. ("NIR") AND AMPAL FINANCIAL SERVICES LTD. ("AMPAL FINANCIAL") (TOGETHER, THE "HOLDING COMPANIES")

Ampal Development, Nir and Ampal Financial, each of which is wholly-owned by the Company, are engaged in the business of financing acquisitions by the Company and holding and leasing commercial real estate in Israel. Prior to 1989, these companies had acted primarily as lenders, and their financing activities were the principal activities of the Company. In 1990, the Holding Companies sold substantially all their loan portfolios to Bank Hapoalim B.M. ("Hapoalim"), and they relinquished their banking licenses. The Holding Companies still service certain loans made by them prior to their ceasing lending activity which are guaranteed by Hapoalim.

It has been reported in the media that Israeli banks are the subject of allegations that they engaged in improper business practices regarding lending. The lending practices engaged in by the Holding Companies were substantially similar to the lending practices of the other Israeli banks. Two claims, one in the amount of 3.6 million New Israeli Shekels ("NIS" or "shekels") (approximately \$865,000) and another one in the amount of NIS 4.0 million (together with Hapoalim) have already been filed with the District Court in Tel Aviv. However, to the best of the Company's knowledge, the Company's subsidiaries, which operated as banking institutions, acted within the law and in accordance with the procedures and customs in effect at the time. On November 19, 1998, the District Court of Tel Aviv ruled that the statute of limitations applies to the majority of the first plaintiff's claim, and thereby rejected same. The plaintiff filed an appeal with the High Court of Appeals, and withdrew the remainder of its claim until the Appellate Court ruling. The Company expects to continue to vigorously defend the two claims. The Company believes that its exposure to additional such claims is close to nothing due to the fact that its banking activity is subject to the statute of limitations, and the fact that the courts in Israel, as in the case of the claim against the Company as described above, do not support claims concerning events that happened more than seven years ago.

Ampal Development owns five commercial properties located in Israel aggregating approximately 37,000 square feet for which it received approximately \$1.4 million in rent for 1998. Four of these properties are net leased to Hapoalim. Nir owns four commercial properties located in Israel aggregating approximately 18,000 square feet for which it received approximately \$.5 million in rent in 1998. Three of these properties are net leased to Hapoalim. Ampal Financial owns two commercial properties located in Israel aggregating approximately 7,000 square feet for which it received approximately \$.6 million in rent in 1998. Both of these properties are net leased to Hapoalim.

The Holding Companies hold interests in other companies discussed elsewhere in this Report and also make loans to these and other investees in furtherance of their businesses.

Ampal Development issued debentures which are publicly traded on the TASE. An aggregate of approximately \$21.2 million of these debentures were outstanding as of December 31, 1998. Ampal Development has deposited with Hapoalim funds sufficient to pay all principal and interest on these debentures.

AMPAL INDUSTRIES (ISRAEL) LTD. ("AMPAL INDUSTRIES")

Ampal Industries, a wholly-owned subsidiary of Ampal, which holds interests in various investee companies described elsewhere in this Report, acquired in 1997 a long-term lease interest in one-half of a commercial building located in Migdal Ha'emek. In 1998, it received approximately \$.1 million in rent for this property.

AMPAL (ISRAEL) LTD. ("AMPAL (ISRAEL)")

Ampal (Israel), a wholly-owned subsidiary of Ampal, owns an approximately 57,000 square foot commercial property located in Tel Aviv which houses its principal offices. A portion of this property is net leased to Hapoalim and another portion is net leased to Moriah. Ampal (Israel) also acts as a holding company for other investments discussed elsewhere in this Report.

AMPAL REALTY CORPORATION ("AMPAL REALTY")

In June 1995, Ampal Realty purchased real property on which an approximately 290,000 square foot office building is located, for approximately \$45 million. The building is located at 800 Second Avenue, New York, New York. The building is 43.9%-occupied by the Consulate of the Government of Israel in New York and many other Israeli government offices.

On December 12, 1996, the building was converted into an office condominium. Following the conversion, on January 31, 1997, the Government of Israel purchased a condominium unit consisting of floors 10 through 18 from Ampal Realty for a purchase price of \$31 million.

The original purchase by Ampal Realty was partially financed by a loan of \$30 million from Hapoalim at an interest rate of LIBOR plus 1% which was to have matured on the initial expiry date of June 28, 1996. As originally contemplated, Ampal Realty requested, and Hapoalim agreed, to extend the repayment of the balance of the loan until June 28, 2000 with quarterly principal payments commencing March 28, 1997. Ampal guaranteed \$20 million of this loan. Concurrent with the conversion, Ampal Realty repaid \$15 million of the outstanding principal of the loan, the maturity date of the loan was set at February 28, 1998, the interest was set at LIBOR plus .50% and Ampal's guarantee was reduced to \$10 million.

As of February 28, 1999, the maturity date for repayment of the \$15 million of outstanding principal was extended to May 31, 1999, the interest rate was set at LIBOR plus .75% and Ampal agreed to guarantee all outstanding obligations.

Currently, 88% of the space owned by Ampal Realty in the building is occupied.

During 1998, Ampal Realty recorded approximately \$3.9 million in rent.

During 1998, Ampal completed a major portion of the proposed building renovation including installation of a new air-conditioning system and new elevators.

Ampal Realty intends to offer its remaining interests in the building for sale or long term lease.

BAY HEART LIMITED ("BAY HEART")

Bay Heart was established in 1987 to develop and lease a shopping mall (the "Mall") in the Haifa bay area. Haifa is the third largest city in Israel. The Mall, which opened in May 1991, is a modern three-story facility with approximately 280,000 square feet of rentable space. The Mall is located at the intersection of two major roads and provides a large mix of retail and entertainment facilities including seven movie theaters. Approximately 37,500 square feet of the Mall are occupied by Supersol Ltd., one of the two largest Israeli supermarket chains, and the parent of a co-investor in Bay Heart. Shekem Department Stores, a major Israeli department store, is the other anchor tenant under a net lease for approximately 57,600 square feet of retail and approximately 17,750 square

feet of storage and other space expiring in 2001. As of December 31, 1998, approximately 98% of the Mall premises was occupied, primarily under two-year leases, with options to extend for four additional years, except for anchor tenants. The total cost of the Mall was approximately \$53 million, which was financed principally with debt. The Company owns 37% of Bay Heart.

Due to the inability to procure the regulatory approval of the relevant authorities to the joint venture with the Israel Ports and Railways Authority and the subsidiary of the Egged bus company to build a transportation and business complex next to the Mall, Bay Heart decided to revert to an alternative plan - building a train station on its land.

ETZ VANIR LTD. ("ETZ VANIR") AND YAKHIN MATAIM LTD. ("YAKHIN MATAIM")

Both Etz Vanir and Yakhin Mataim cultivate orange, grapefruit, clementine, lemon and avocado groves in Israel, both for export and domestic use, pursuant to various long-term land leases which, including renewal options, do not expire until the mid-21st century. These properties are located near the city of Netanya between an existing and a proposed highway. Approximately 1,200 acres are presently under cultivation by these two companies.

Ampal owns 50% of the equity of Etz Vanir and Yakhin Mataim. The remaining 50% of the equity of these companies is owned by an unrelated company, Yakhin Hakal Ltd. ("Yakhin Hakal") which manages their operations. Because of a dispute between Ampal and Yakhin Hakal regarding the operating agreement for the companies, Ampal had requested that an Israeli court declare the agreement null and void, and, in its response, Yakhin Hakal had stated that the companies owed it approximately \$4 million for services it had rendered to the companies. The court ruled that Ampal and Yakhin Hakal should jointly appoint an additional director of these companies, who will cast the deciding vote in cases of dispute. Yakhin Hakal filed an appeal and requested a stay concerning the implementation of the court's ruling. The appeal was denied by the Israeli Supreme Court. The parties subsequently agreed to the appointment of the Honorable Dov Levine, a retired judge, as the additional director with the deciding vote. In addition, both Ampal and Yakhin Hakal have appointed independent accountants who will jointly prepare Etz Vanir's and Yakhin Mataim's financial statements. Etz Vanir and Yakhin Mataim have not reported their financial results to Ampal since 1990 and, therefore, their financial results have not been included in the Company's financial statements.

In February 1995, Yakhin Hakal and its affiliates commenced a legal proceeding seeking to cause Etz Vanir and Yakhin Mataim to redeem perpetual debentures owned by Ampal and to require Ampal to surrender all of its preferred shares of Etz Vanir and Yakhin Mataim for their par value, which is nominal.

On July 27, 1998, a Tel Aviv District Court judge ruled in favor of Yakhin Hakal the manager and co-owner of Ampal's 50%-owned affiliates Etz Vanir and Yakhin Mataim. The judge's decision allows Etz Vanir and Yakhin Mataim to redeem debentures owned by Ampal for approximately \$800,000 and to require Ampal to surrender all of its preferred shares of Etz Vanir and Yakhin Mataim for their par value. After the redemption and surrender, Ampal will no longer have any interest in Etz Vanir or Yakhin Mataim.

At the request of Ampal's attorneys, the Tel Aviv District Court has issued a stay of performance of the judgment until the High Court of Appeals issues a final judgment. On October 15, 1998, Ampal filed an appeal with the High Court of Appeals in Jerusalem. It is not expected that a final judgment will be rendered before the end of 1999. See "Legal Proceedings."

INDUSTRIAL BUILDINGS CORPORATION LTD. ("INDUSTRIAL BUILDINGS")

Industrial Buildings, Israel's largest owner/lessor of industrial property, is engaged principally in the development and construction of buildings in Israel for industrial and commercial use and in project management. Industrial Buildings carries out infrastructure development projects for industrial and residential purposes, principally for a number of government agencies and authorities. Industrial Buildings hires and

coordinates the work of contractors, planners and suppliers of various engineering services.

Industrial Buildings owns approximately 13.6 million square feet of space in industrial buildings throughout Israel. It owns both multi-purpose buildings and built-to-suit buildings which are constructed in accordance with the specific requirements of tenants. In certain cases, there is an option in the tenant's favor to purchase the leased property, and, in the case of most built-to-suit properties, a commitment on the part of the tenant to purchase the property.

The buildings which are owned by Industrial Buildings are leased to approximately 2,360 lessees under net leases having terms of up to ten years. The occupancy rate in buildings owned or leased by Industrial Buildings was approximately 85% at December 31, 1998.

Industrial Buildings' plans include building a project in the Tel Aviv area comprising approximately 448 apartments, a commercial center of approximately 43,000 square feet, an office building of approximately 156,000 square feet and parking facilities of approximately 883,000 square feet.

Approximately 5.8% of Industrial Buildings' space is located in the administered territories. Industrial Buildings cannot predict whether the ongoing peace process involving the State of Israel and the Palestine Liberation Organization will have an effect on this space. Historically, however, the Government of Israel has compensated property owners for forfeitures resulting from government actions.

Industrial Buildings' policy is to distribute as a dividend not less than 60% of each year's earnings during the period 1993 through 2000. In December 1998, Industrial Buildings distributed a dividend of approximately NIS 60 million (\$14.4 million).

Ophir's interest in Industrial Buildings is subject to foreclosure in the event of a default by any of the investors under the bank credit agreements entered into in connection with the original acquisition of Industrial Buildings from the Government of Israel in 1993. Any amounts distributed as a dividend by Industrial Buildings are required to be applied first to pay then due borrowings.

Industrial Buildings had a staff of approximately 51 permanent employees as of December 31, 1998.

The Company's interest in Industrial Buildings, as of December 31, 1998, was 5.6%.

OPHIR HOLDINGS LTD. ("OPHIR")

Ophir is a holding and investment company that owns interests in high technology and real estate companies. Ophir has invested in two mutual funds and thirteen start-up companies in the fields of biotechnology, software and medical equipment. During 1998, Ophir invested \$6.1 million in start-up companies and wrote-down \$1.2 million as research and development or equity. Ophir is 42.5%-owned by the Company.

Ophir owns, through a wholly-owned subsidiary, seven real estate properties located in Israel aggregating approximately 118,360 square feet. Two of these properties are leased to Hapoalim or its subsidiaries.

The Company and INV, which also owns 42.5% of Ophir, are parties to a shareholders' agreement regarding joint voting, directorships and rights of first refusal with respect to Ophir.

Ophir owns two acres of land in an industrial park in Netanya, Israel together with an unrelated party. These parties entered into a joint venture agreement regarding this site on which they intend to develop a 326,000 square foot building (including parking) for both industrial and commercial uses. The estimated cost of development of this project is \$17.5 million. Ophir's share of the property and joint venture is 70%. Through December 31, 1998, Ophir invested \$8.8 million in the development of the building. Part of the building (50% of main area) is leased already.

On January 7, 1999, the joint venture entered into an agreement to sell 9000 square feet of the building for \$1.2 million.

Ophir owns a 16.7% interest in the Shmey-Bar group of companies ("Shmey-Bar"). Shmey-Bar acquired 2.3 million square feet of real estate properties from Hamashbir Hamerkazi, Ltd. ("Hamashbir Hamerkazi") for \$27.7 million. In the same transaction, Shmey-Bar received an option to acquire, for \$26.3 million, an additional 700,000 square feet of real estate properties from Hamashbir Hamerkazi. These properties are situated in various locations in Israel. Ophir's interest in Shmey-Bar was acquired with a nominal investment accompanied by a \$2.6 million shareholder's loan.

Ophir was, through a wholly-owned subsidiary, a limited partner in Clark/67 Associates L.P. ("Clark/67") which purchased an office building in New Jersey for \$3.2 million. Ophir invested \$250,000 of Clark/67's \$500,000 capital. Ophir sold its interest in Clark/67, effective February 20, 1998 for a sale price of \$1.2 million, representing an estimated net profit after taxes of \$0.9 million to Ophir.

On October 17, 1996, Memco Software Ltd. ("Memco"), a provider of computer security solutions, conducted its initial public offering of 3,870,000 ordinary shares (including 450,000 over-allotment shares) at \$15.00 per share. Memco sold 3,450,000 of these shares and received net proceeds of approximately \$46 million, and existing shareholders sold 420,000 shares. Prior to the offering, Ophir owned a 17.9% interest in Memco, which it purchased for \$2.5 million. Ophir sold ordinary shares in the offering, reducing its ownership interest to 13.1%. The Company recorded a fourth quarter gain in 1996 of approximately \$1.2 million, after taxes, with respect to the offering. In 1997, Ophir sold an additional 200,000 shares of Memco for a gain of \$2.3 million, after taxes and in the first quarter of 1998 sold 200,000 shares of Memco for a gain of \$2.1 million after taxes. After these sales, Ophir has a 10.3% interest in Memco.

Since Ophir no longer has significant influence in Memco (because of the reduced ownership interest and cancellation of the voting agreements and total waiving of Ophir's rights to nominate a director), the use of the equity method for the investment in Memco was stopped as of April 1, 1998 and the carrying value presented an "available for sale" investment.

On May 1998, Memco purchased two companies for \$44 million in shares and \$11 million in cash, reducing Ophir's equity interest to 9.3%.

On August 13, 1998, Memco entered into an agreement with Platinum Technology International Inc. (one of Memco's shareholders), pursuant to which, at the effective time of the arrangement, each outstanding Memco ordinary share will be exchanged for 0.836 of share of Platinum and Memco will become a wholly-owned subsidiary of Platinum. Completion of the arrangement depends upon meeting a number of conditions. Ophir is the owner of 1,626,397 Memco's shares (9.3%).

In December 1994, Ophir invested approximately \$6.75 million and acquired 33% of a 60,000 square foot property in Tel Aviv. The owners of the property have nearly completed construction of a building on the property consisting of 229,000 square feet of office space, 22,000 square feet of commercial space and 500 parking spaces at a total cost of approximately \$30 million. In addition, Granite invested \$3 million and acquired 17% of this property. It is anticipated that Hapoalim will occupy space in this building. Since January 1995, Ophir and Granite have invested additional funds for the construction of the building. On February 20, 1997, Ophir, Granite, and an unrelated third party, Zeus Investments Ltd., entered into an agreement with Revadim (Properties) Ltd., a subsidiary of Hapoalim, to sell their interests in the property. Pursuant to the agreement, Granite

and Ophir will sell their entire interests and Zeus will sell a portion of its interest. Granite's share of the consideration will be approximately NIS 36 million (approximately \$10.7 million) and Ophir's share will be approximately NIS 70 million (approximately \$20.9 million). Completion of the sale, upon the completion of the building, took place in the second quarter of 1998. In 1997, Ophir recorded a net gain of \$1.9 million, after taxes, from the sale of the building based on an estimated partial completion of the building and an estimated provision for construction costs. In 1998, Ophir recorded a net gain of \$1.9 million.

In September 1995, Ophir acquired a 10% interest in a joint venture which has agreed to purchase 4.4 million square feet of land near Haifa for approximately \$15 million, on which the parties intend to develop a commercial real estate project for rent. Ophir has obligated itself to invest up to \$1.5 million in the first stage of this project and its share of development costs is estimated to be as much as \$30 million.

On September 16, 1998, Teledata Communications Ltd. ("Teledata") entered into an agreement with ADC Telecommunications Inc., pursuant to which, ADC agreed to pay \$15.7 for each of Teledata's shares. The deal was completed in November 1998 and Ophir received \$5.6 million. Ophir recorded a loss of \$.9 million on the sale of Teledata's shares in 1998.

On December 31, 1998, the 52% interest in Industrial Buildings was transferred from Mivnat, a 25%-owned affiliate of Ophir, to Mivnat's shareholders. Ophir currently holds a direct interest of 13.2% of Industrial Buildings, and has appointed two directors to its board of directors, one from Ampal and the other from INV.

In 1998, Ophir paid \$7.0 million for dividends declared in 1997, and declared dividends of \$4.8 million paid in January 1999.

In February 1998, Dr. Gleitman, Chief Executive Officer of Ampal, became the Chairman of the Board of Directors of Ophir.

ENERGY DISTRIBUTION

GRANITE HACARMEL INVESTMENTS LTD. ("GRANITE")

Granite owns the Sonol group of companies, the second largest Israeli distributor of refined petroleum products. Supergas, a wholly-owned subsidiary of Granite, is the third largest marketer and distributor in Israel of liquefied petroleum gas. Through its subsidiaries, Granite also manufactures and markets lubricating oils and automotive batteries.

During 1998, Sonol had a net gain of 7 public gas stations to its network. As of December 31, 1998, Sonol supplied petroleum products to 180 public gas stations in Israel, of which 134 are owned by or leased to Sonol. Sonol sold approximately 2.3 million metric tons of refined petroleum products and lubricating oils in 1998.

Sonol and Delek The Israel Fuel Corporation Ltd. ("Delek") jointly own the rights to the Dalkan 2000, a computerized system for marketing fuel products (primarily to automobile fleets). On January 26, 1997, the anti-trust commissioner ruled that the joint marketing arrangement of the Dalkan 2000 system between Sonol and Delek is a restrictive trade agreement. As a result of the position taken by the Controller, Sonol and Delek agreed to divide the Dalkan 2000 system between themselves so that each company will operate an independent system in a manner that will enable customers, in accordance with their own preferences, to enter into an agreement with either of the companies. The implementation of the separation agreement was carried out during 1998.

During 1998, the former controlling shareholder of Granite, the Mashav group, sold its 56.9% interest in Granite, in an auction yielding a company valuation of approximately \$350 million, to a group consisting of the Borovitz family, controlling shareholder of Arkia, one of Israel's aviation companies and Glenkor, a Swiss corporation which is one of the world's largest crude oil dealers. Granite's Chairman is Mr. Y. Borovitz, who is the CEO of Arkia.

During December 1998, Granite declared and paid to its shareholders cash dividends in a total amount of NIS 500 million. The Company's share in such dividends was the equivalent in US\$ of NIS 93 million.

The Company's ownership of Granite, as of December 31, 1998 was 19.1%. As a result of a recent sale of Granite Hacarmel Investments Ltd by its controlling shareholder, the shareholders' agreement which had been in effect between that shareholder, the Company and the Landau Group, as defined below, was terminated. The Company entered into a new shareholders' agreement, dated July 16, 1998, with Yeshayahu Landau and Yeshayahu Landau Properties (1998) Ltd. (collectively, the "Landau Group"), with respect to their interests in Granite. In addition to the shareholders' agreement the new controlling shareholders of Granite agreed to maintain the same board representations which existed prior to the sale. Two of the Company's representatives are members of the board of directors of Granite and one representative is a member of the executive committee of the board of Granite. As of the beginning of March 1999, the Company owns an approximately 20.3% interest in Granite and the Landau Group owns an approximately 19% interest in Granite.

HOTELS AND LEISURE-TIME

CORAL WORLD INTERNATIONAL LIMITED ("CORAL WORLD")

Coral World, which is 50%-owned by the Company, owns and controls three marine parks in Eilat (Israel), Perth (Australia) and Maui (Hawaii). (The park in Maui was opened to the public in March 1998).

Coral World's marine park located in Eilat is next to the coral reefs and visitors at this park view marine life in its natural coral habitat through a unique underwater observatory. Coral World's marine parks in Perth and Maui allow visitors to walk through a transparent acrylic tube on the bottom of a man-made aquarium surrounded by marine life. In addition to admission charges, Coral World's food and beverage facilities and retail outlets are a significant revenue source.

Coral World's parks hosted approximately 1,251,000 visitors during 1998. Coral World employed approximately 250 persons as of December 31, 1998.

On February 24, 1999, a wholly-owned subsidiary of Coral World sold its aquarium in Manly (Australia) to an unrelated party for AU\$1.6 million. This aquarium has had an operating loss since its purchase by Coral World in 1992. This subsidiary, Coral World Manly Pty. Ltd., remains the owner of a small real estate property in Sydney.

Coral World is in litigation with respect to insurance coverage for a U.S. \$1.2 million claim relating to hurricane damages in St. Thomas in 1995. The outcome of this dispute has not been determined.

COUNTRY CLUB KFAR SABA LIMITED ("KFAR SABA")

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

The Club, which has a capacity of 2,000 member families, had approximately 1,800 member families for the 1998/99 season and approximately 1900 member families for the 1997/98 season. The construction cost of the Club was \$5.2 million, which was financed

principally with debt. Kfar Saba's revenues are principally attributable to annual memberships. The Company owns 51% of Kfar Saba.

HOD HASHARON SPORT CENTER (1992) LIMITED PARTNERSHIP ("HOD HASHARON")

On December 31, 1995, the Company purchased from Kfar Saba its 50% interest in Hod Hasharon for \$1.4 million.

Hod Hasharon operates a similar country club facility (the "H.H. Club") in Hod Hasharon, a town adjacent to Kfar Saba. The H.H. Club, which has a capacity of 1,600 member families, has operated at capacity for the past two years. The H.H. Club, which opened in July 1994, was constructed at a cost of \$4.8 million, of which \$2.1 million was borrowed from banks.

MORIAH HOTELS LTD. ("MORIAH")

Moriah, which is 46%-owned by the Company, is one of the largest hotel chains in Israel based both upon the number of rooms and the number of locations.

The following chart provides certain information with respect to hotels Moriah owns or operates:

LOCATION	CATEGORY	NO. OF ROOMS	MORIAH'S INTEREST
Jerusalem.....	Luxury	292	Owens
Eilat.....	Luxury	306	Owens
Dead Sea.....	Luxury	220	Owens
Tel Aviv.....	Luxury	355	Leases (1)
Tiberias.....	Luxury	265	Leases (2)
Dead Sea.....	First Class	196	Manages (3)
Zichron Yaakov.....	Economy	112	Manages (4)
Nazareth.....	Economy	120	Manages (4)
Total.....		1,866	

- (1) Net lease which expires in 2006.
- (2) Net lease which expires in 2001.
- (3) Management agreement which expires in March 1999.
- (4) Management agreement which expired in March 1998.

Moriah's competitive position has been enhanced by operating out of more locations than any other chain in Israel, improving its facilities and providing high quality service to its guests. During 1998, Moriah spent approximately \$4.4 million on general improvements and renovations.

Tourist arrivals in Israel during 1998 and 1997 were 1.9 million and 2.1 million, respectively. Moriah's occupancy rate was 66% (68%, exclusive of the economy hotels) in 1998 and 67% (68%, exclusive of the economy hotels) in 1997. The average occupancy rate in the Israeli hotel industry during 1998 was 59%. Moriah's average room rate (expressed in dollars) decreased by 9% in 1998 compared to 1997.

Moriah's competitive position could be adversely affected by economic changes in foreign countries, construction of new hotels in locations which compete with Moriah's hotels or unrest in Israel or other areas of the Middle East. As a result of the significant rise in tourism in Israel in some recent years, additional hotels have been or are being constructed and competition is expected to intensify.

Moriah employed approximately 1,515 persons as of December 31, 1998.

In December 1995, Moriah entered into an agreement with Radisson SAS, the international hotel chain, pursuant to which Moriah has been granted a 30-year exclusive franchise in Israel. Moriah's hotels have been renamed to include the Radisson name and are now included in the Radisson reservation network. The agreement also grants Moriah the right to operate hotels in Jordan under the name Radisson Moriah.

On January 25, 1999, the Company accepted a tender from Koor Tourism Enterprises (which tendered, jointly with the Sheraton International chain) for the acquisition of the Radisson Moriah Hotels chain ("Moriah"), the Company's 46%-owned affiliate, for \$37.5 million. This transaction was approved by Israel's Anti-Trust Commissioner. If the aforementioned transaction is consummated, the Company will record a gain on sale in the amount of approximately \$12.4 million (\$8 million, net of income taxes). In the event that Moriah distributes dividends prior to the completion of the sale, the sales price will be adjusted by the amount of the dividends received.

The sale of the Moriah Hotels chain was initiated as a result of strategic policy adopted by Ampal's Board of Directors in 1998.

FINANCE AND OTHER HOLDINGS

AM-HAL LTD. ("AM-HAL")

The Company and a subsidiary of The Israel Corporation, a major Israeli holding company, each own 50% of Am-Hal. The aggregate cost of the center was approximately \$21 million, and was financed principally by loans made or guaranteed by the shareholders and refundable tenant deposits. These loans have been repaid.

Am-Hal has developed and operates a luxury senior citizens center in Rishon Lezion, a city located approximately 10 miles south of Tel Aviv. The center, which was completed in March 1992, includes 162 apartments (of which 152 were occupied on December 31, 1998), an 80-bed geriatric ward, a swimming pool and other recreational facilities. The geriatric ward is leased by Am-Hal to a non-affiliated health care provider until 2002. Rental payments are based upon the profits of the geriatric ward, with a minimum rent of \$340,000 per year.

Due to the success of this project and the increased demand for such services, Am-Hal has entered into a joint venture agreement with, among others, the owner of a property consisting of 2.5 acres of land in Hod Hasharon, a city located approximately 7 miles north of Tel Aviv. The joint venture intends to build a senior citizens center on this site, a building of approximately 225,000 square feet (the building in Rishon Le-Zion is approximately 120,000 square feet). It is anticipated that the center will include 260 apartments. The joint venture anticipates that the center will be opened June 2000. The total cost of the project will be approximately \$42 million. By the end of 1998, 16 apartments had been sold.

EPSILON INVESTMENT HOUSE LTD. ("EPSILON")

In January 1995, the Company invested \$1.5 million and acquired 20% of Epsilon and its affiliate, Renaissance Investment Company Ltd. ("Renaissance"). Epsilon is an investment bank which provides portfolio management services and Renaissance provides underwriting services in Israel through its subsidiaries.

RENAISSANCE ISRAEL

In July 1994, the Company agreed to invest \$3 million for 15% of Renaissance Israel, a fund that invests in Israel-related companies generally on the same terms and conditions as the Renaissance Fund LDC (the "Renaissance Fund"). The Renaissance Fund was formed in 1994 to invest primarily in emerging markets, basic industry and government privatizations

in Israel and elsewhere in the Middle East. The Company had invested an aggregate of \$2.8 million in Renaissance Israel, as of December 31, 1997. In March 1998, the Company invested approximately \$60,000, reducing its outstanding commitment to approximately \$150,000.

The only active investment made by the Company through the Renaissance fund which is still on the Company's books is an investment in Clalcom. Book value of which at the end of December 31, 1998 was \$370,000.

INDUSTRY

CARMEL CONTAINER SYSTEMS LIMITED ("CARMEL")

Carmel is one of the leading Israeli designers and manufacturers of paper-based packaging and related products. Carmel manufactures a varied line of products, including corrugated shipping containers, moisture-resistant packaging, consumer packaging, triple-wall packaging and wooden pallets and boxes.

Carmel estimates that it manufactures approximately 25% of the folding board, approximately 85% of the corrugated triple wall, and approximately 35% of the corrugated board packaging in Israel. Carmel's products are marketed to a wide variety of customers for diverse uses, but its principal market is packaging for agricultural products and for the food and beverage industry. During the last few years, sales of packaging products to exporters of agricultural products have declined slightly, but have been partially offset by an increase in domestic sales.

In 1996, 1997 and 1998 Carmel invested approximately \$34 million for machinery and infrastructure. In December 1996, one of Carmel's plants was relocated to a leased property in Caesarea, Israel and a second plant was moved and combined with the first plant in the third quarter of 1997. As of December 31, 1998, Carmel employed 690 persons.

As of December 31, 1998, the Company owned 20.7% of the shares of Carmel. Shares of Carmel are listed for trading on the AMEX under the symbol "KML". The Company, American Israel Paper Mills Ltd., the largest paper producer in Israel, and Robert Kraft, a United States investor, are parties to a shareholders' agreement with respect to their shareholdings (which aggregate approximately 78% of the shares) in Carmel. The agreement includes provisions governing board representation, required votes for specified corporate actions, matters on which the shareholders agree to cooperate and rights of first refusal with respect to the sale or transfer of the shares owned by the parties. Carmel has granted to International Forest Products Corporation, an affiliate of Mr. Kraft, a right to supply up to 80% of Carmel's requirements for imported paper and forest products in the ordinary course of Carmel's business, on a competitive basis.

M.D.F. INDUSTRIES LTD. ("M.D.F.")

M.D.F. the Company's 50%-owned affiliate, which has established a plant in Israel for the production of medium density fiber boards, and which completed its running-in period on June 30, 1996, incurred significant losses in 1996 and 1997. The losses in 1997 are primarily attributable to a slow-down in the Israeli construction industry where M.D.F. primarily markets its products. In view of the substantial losses incurred by M.D.F. and the continuing depressed prices with respect to its products, the Company believes that further substantial losses will be incurred by M.D.F. Consequently, because of the uncertainty with respect to M.D.F.'s future operations, the Company recorded a loss from impairment of this investment in December 1996 for its full remaining investment in and loans to M.D.F. in the amount of \$8.8 million. This loss, in addition to the \$1.3 million loss previously recorded by the Company in 1996 with respect to M.D.F., resulted in a total loss attributable to the operations of M.D.F. in the amount of \$8.6 million, net of tax benefits. M.D.F. is no longer accounted for as an affiliate of the Company under the equity method of accounting. The Company, however, continues to be contingently liable with respect to \$5 million of guarantees given by the Company with respect to M.D.F.'s bank obligations. The Company is attempting to reduce its exposure under these guarantees.

In an effort to improve its financial results, M.D.F. is attempting to improve its efficiency and reduce its costs. Furthermore, pursuant to a request made by M.D.F., it is anticipated that an anti-dumping duty will be imposed by the Minister of Industry and Commerce on medium density fiber boards which are being imported from the United States and Europe.

Paradise Industries Ltd. ("Paradise")

Paradise is a leading manufacturer and distributor of mattresses and fold-out beds in Israel. Paradise manufactures and distributes its mattresses under the brand names "Paradise," "Mefi" and "Sealy." "Sealy" mattresses are manufactured and distributed by Paradise under a ten-year exclusive license covering the Israeli market expiring in 2002 with an option for an additional five-year term. Paradise owns its own manufacturing facilities. It distributes mattresses through independent stores and by direct sales to hotels.

On June 26, 1997, Paradise's main factory was heavily damaged by a fire and has been closed since then. Paradise was, however, able to resume its activities at the end of the third quarter by assembling mattresses and sofa beds out of its newly-built assembly plant rather than manufacturing them. Paradise uses imported and domestically produced components in its assembly process. Paradise carried both fire damage and business interruption insurance covering the factory. In December 1997, Paradise settled with the insurance company and agreed to accept \$7.1 million of compensation for the damage caused by the fire. Paradise received \$6.8 million of the insurance proceeds in December 1997 and the balance in early 1998. The insurance recovery for the loss of profits caused by fire was \$.8 million. Paradise was also compensated for the additional expenses it incurred as a result of the fire.

In January 1998, a new managerial team, experienced in the mattress and bedding industry, was installed at Paradise. Throughout 1998, the number of the Company's employees was reduced to 75 while at the same time production continued, the break even point of the plant declined substantially and the production potential grew.

The Company currently owns 85.1% of the share capital of Paradise.

Employees

As of December 31, 1998, Ampal had 6 employees. Ampal (Israel) had two employees, Ampal Industries (Israel) Ltd. had eleven employees, and Ampal Development (Israel) Ltd. had one employee. Relations between Ampal and its employees are satisfactory.

CONDITIONS IN ISRAEL

Most of the companies in which Ampal directly or indirectly invests conduct their principal operations in Israel and are directly affected by the economic, political, military, social and demographic conditions there. A state of hostility has existed, varying as to degree and intensity, between Israel and the Arab countries and the Palestine Liberation Organization (the "PLO"). While negotiations have taken place and are taking place between Israel, its Arab neighbors and the PLO to end the state of hostility in the region, it is not possible to predict the outcome of these negotiations and their eventual effect on Ampal and its investee companies.

Economic Activity

Many of the Company's investee companies borrow and lend shekel-based loans which are typically linked to the Israeli Consumer Price Index ("CPI"). Therefore, changes in (i) the CPI, (ii) the rate of exchange between the Israeli shekel and the U.S. dollar, and (iii) inflation in Israel, can have a direct affect on the Company's financial statement.

The Israeli inflation rate in 1998 was 8.6% versus 7.0% in 1997. The highest price increases were in miscellaneous 11.6%, fruits and vegetables 11.6%, furniture and house equipment 10.4%, health care (9.2%), education, culture and entertainment (8.6%), and food, excluding fruits and vegetables (8.4%). The housing index rose 8.8%. Until August 1998, the annual inflation rate was approximately 1.0%, but due to the drastic devaluation of the NIS versus the US\$, as a result of global crisis, a rapid increase in prices occurred. The Israeli economy grew 2.0% in 1998, the lowest rate of the decade. From 1990 to 1995, the Gross Domestic Product rose from 6% to 7% annually, declining to 4.7% in 1996.

During 1998, the shekel was devalued by 17.6% relative to the United States dollar, a rate which was higher than the annual inflation rate.

To offset the effects of inflation on the purchasing power of the Israeli currency, the Government of Israel has instituted "linkage" policies which have also been followed by most private organizations. Through linkage, the amount of an obligation or payment is increased from time to time by an amount related to changes in an index which may be the exchange rate of a foreign currency or a price index. The payee is thus compensated for the relative decline in the purchasing power of the NIS. Linkage adjustments may be based upon the total or only a specified percentage of the change in the index being used. Many obligations or payments in shekels are linked to the United States dollar or the Israeli CPI, including payment obligations and receivables of many of the Company's investees.

The following table sets forth for the periods indicated the effects of annual inflation on linkage adjustments and annual devaluations, as discussed in the preceding paragraph:

Year Ended Dec. 31	Israel Annual Inflation Rate (1)	Closing Exchange Rate (2)	Annual Devaluation (3)	Annual Inflation Adjusted for Devaluation (4)	U.S. Annual Inflation Rate (5)
1992	9.4	2.764	21.1	(9.66)	3.0
1993	11.2	2.986	8.0	2.96	3.0
1994	14.5	3.018	1.1	13.25	2.6
1995	8.1	3.135	3.9	4.04	2.8
1996	10.6	3.251	3.7	6.6	3.3
1997	7.0	3.536	8.8	(1.65)	1.7
1998	8.6	4.16	17.6	(7.66)	1.6

(1) "Israel Annual Inflation Rate" is the percentage increase in the Israeli CPI between December of the year indicated and December of the preceding year.

(2) "Closing Exchange Rate" is the rate of exchange of one United States dollar for the NIS at December 31 of the year indicated as reported by the Bank of Israel.

(3) "Annual Devaluation" is the percentage increase in the value of the United States dollar in relation to the NIS during the calendar year.

(4) "Annual Inflation Adjusted for Devaluation" is obtained by dividing the December Israeli CPI by the Closing Exchange Rate, thus first obtaining a United States dollar-adjusted Israeli CPI, and then calculating the yearly percentage changes in this adjusted index.

(5) "U.S. Annual Inflation Rate" is obtained by calculating the percentage change in the United States Consumer Price Index for All Urban Consumers, as published by the Bureau of Labor Statistics of the United States Department of Labor.

Israeli Investment

Since the establishment of the State of Israel in 1948, the Government of Israel has promoted the development of industrial and agricultural projects through a variety of methods including tax abatements and tax incentives.

Industrial research and development projects in Israel may qualify for government aid if they deal with the development of commercial products to be made in Israel for sale abroad. Direct incentives usually are provided in the forms of grants, regulated in accordance with the Law for Encouragement of Industrial Research and Development 1984. Many of the Company's investee companies have taken advantage of such incentives.

CERTAIN UNITED STATES AND ISRAELI REGULATORY MATTERS

SEC Exemptive Order

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

Israeli Banking Regulations

A provision of the Banking (Licensing) Law, 5741 1981, as amended (the "Banking Law"), imposes limitations on the purchase and holding of means of control of non-banking corporations by Israeli banks. The Banking Law does not permit Israeli banks, including Hapoalim, to invest more than 25% of its capital in non-banking corporations, including Ampal, or to hold more than 25% of the means of control of each such corporation.

Under an amendment to the Banking Law enacted in March 1994, Israeli banks, including Hapoalim, were required to reduce their holdings in and means of control over grandfathered non-banking corporations, including Ampal, to 25% by not later than December 31, 1996, and to 20% by December 31, 1999. Pursuant to this amendment, each bank's permitted investments in non-banking corporations by the end of 2002 cannot exceed 15% of each Israeli bank's capital, with the addition of up to 10% of its capital permitted to be invested, subject to certain limitations, in certain eligible non-banking corporations. In order to comply with Banking Law, during 1996 Hapoalim engaged in a series of transactions which reduced its holdings in Ampal and resulted in Hapoalim no longer controlling Ampal.

From time to time, the Company engages in transactions with Hapoalim and its affiliates. Currently, the Company maintains substantial deposits with Hapoalim and its subsidiaries. See "Certain Relationships and Related Transactions."

United States Banking Regulations

Hapoalim is subject, through the United States International Banking Act of 1978 ("IBA"), to the provisions of the United States Bank Holding Company Act of 1956 ("BHC"). Due to Ampal's status as a subsidiary of Hapoalim for purposes of the IBA and BHC, there may be limitations upon the direct or indirect investment activities of Ampal in the United States. While Ampal itself is considered to be a "grandfathered" investment of Hapoalim under the IBA for purposes of the BHC (which status may be reviewed by the Board of Governors of the Federal Reserve), Ampal may not invest in more than 25% of the voting shares or the equity of United States corporations or non-United States corporations which have a majority of their assets in or revenues derived from the United States, subject to certain exceptions. Management of Ampal does not believe that these limitations contained in the BHC and the regulations of the Board of Governors of the Federal Reserve System

thereunder have had or will have any material adverse impact upon the Company or its operations.

TAX INFORMATION

Israeli Taxation of Ampal

Ampal (to the extent that it has income derived in Israel) and Ampal's Israeli subsidiaries are subject to taxes imposed under the Israeli Income Tax Ordinance. For 1997, Israeli companies were taxed on their income at a rate of 36%.

A tax treaty between Israel and the United States became effective on December 30, 1994. This treaty has not had a substantial impact on the taxation of the Company in the United States or in Israel.

Ampal has income from interest, rent and dividends resulting from its investments in Israel. Under Israeli law, Ampal has been required to file reports with the Israeli tax authorities with respect to such income. In addition, as noted below, Ampal is subject to a withholding tax on dividends received from Israeli companies at a rate of either 25%, 15% or 12.5%, depending on the percentage ownership of the investment and the type of income generated by that company (as opposed to dividends payable to Israeli companies which are exempt from tax, except for the dividends paid by an approved enterprise to either residents or non-residents, the tax on which is withheld at a rate of 15%). Under an arrangement with the Israeli tax authorities, such income has been taxed based on principles generally applied in Israel to income of non-residents. Ampal has filed reports with the Israeli tax authorities through 1996 and has received "final assessments" with respect to such reports filed through 1993 (which final assessments are, under Israeli law, subject to reconsideration by the tax authorities only in certain limited circumstances, including fraud). Based on the tax returns filed by Ampal through 1993, it has not been required to make any additional tax payments in excess of the withholding on its dividends. In addition, under Ampal's arrangement with the Israeli tax authorities, the aggregate taxes paid by Ampal in Israel and the United States on interest, rent and dividend income derived from Israeli sources has not exceeded the taxation which would have been payable by Ampal in the United States had such interest, rent and dividend income been derived by Ampal from United States sources. There can be no assurance that this arrangement will continue in the future. This arrangement does not apply to taxation of Ampal's Israeli subsidiaries.

Generally, under the provisions of the Income Tax Ordinance, income paid to non-residents of Israel by residents of Israel is generally subject to withholding tax at the rate of 25%. However, withholding rates on income paid to United States residents by residents of Israel are subject to the United States-Israel tax treaty. No withholding has been made on interest and rent payable to Ampal under an exemption which Ampal has received from the income tax authorities on an annual basis. There can be no assurance that this exemption will continue in the future. The continued tax treatment of Ampal by the Israeli tax authorities in the manner described above is based on Ampal continuing to be treated, for tax purposes, as a non-resident of Israel that is not doing business in Israel.

Under Israeli law, a tax is payable on capital gains of residents and non-residents of Israel. With regard to non-residents, this tax applies to gains on sales of assets either located in Israel or which represent a right to assets located in Israel (including gains arising from the sale of shares of stock in companies resident in Israel). Since January 1, 1994, the portion of the gain attributable to inflation prior to that date is taxable at a rate of 10%, while the portion since that date is exempt from tax, while the remainder of the profit, if any, was taxable to corporations at 36% in 1998. Non-residents of Israel are exempt from the 10% tax on the inflationary gain derived from the sale of shares in companies that are considered Israeli residents if they choose to compute the inflationary portion of the gain based on the change in the rate of exchange between

Israeli currency and the foreign currency in which the shares were purchased from the date the shares were purchased until the date the shares were sold.

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

Individuals and companies in Israel pay VAT at a rate of 17% of the price of assets sold and services rendered. They can deduct VAT paid on goods and services acquired by them for the purpose of their business.

United States Taxation of Ampal

Ampal and its United States subsidiaries (in the following tax discussion, generally "Ampal") are subject to United States taxation on their consolidated taxable income from foreign and domestic sources. The gross income of Ampal for tax purposes includes or may include (i) income earned directly by Ampal, (ii) Ampal's share of "subpart F income" earned by certain foreign corporations controlled by Ampal and (iii) Ampal's share of income earned by certain electing "passive foreign investment companies" of which Ampal is a stockholder. Subpart F income includes dividends, interest and certain rents and capital gains. Since 1993, the maximum rate applicable to domestic corporations is 35%.

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

In general, the total foreign tax credit that Ampal may claim is limited to the proportion of Ampal's United States income taxes that its foreign source taxable income bears to its taxable income from all sources, foreign and domestic. The Internal Revenue Code of 1986, as amended (the "Code"), also limits the ability of Ampal to offset its United States tax liability with foreign tax credits by subjecting various types of income to separate limitations. Source of income and deduction rules may further limit the use of foreign taxes as an offset against United States tax liability. As a result of the operation of these rules, Ampal may choose to take a deduction for foreign taxes in lieu of the foreign tax credit.

Ampal may be subject to the alternative minimum tax ("AMT") on corporations. Generally, the tax base for the AMT on corporations is the taxpayer's taxable income increased or decreased by certain adjustments and tax preferences for the year. The resulting amount, called alternative minimum taxable income, is then reduced by an exemption amount and subject to tax at a 20% rate. As with the regular tax computation, AMT can be offset by foreign tax credits (separately calculated under AMT rules and generally limited to 90% of AMT liability as specially computed for this purpose).

Item 2. Property

Ampal subleases 4,960 rentable square feet of office space leased by Hapoalim at 1177 Avenue of the Americas, New York City under a sublease which expires on August 30, 2009. The base rent, which commenced in September 1994, is \$169,000, subject to escalation. In 1998, Ampal's total payment to Hapoalim in connection with this lease was \$170,000.

The Company leases office space in various locations in Israel to Hapoalim and its subsidiaries, pursuant to leases which will generally expire in the years between 2000 and 2003, in exchange for total rental payments in 1998 of approximately \$2,870,000. Generally, the annual payments are based upon 10% of the value of the property linked to the CPI. In addition, the Company leases spaces primarily for retail use to non-related parties and received approximately \$4,432,000 in rent for such spaces in 1998.

Other properties of the Company, and the Company's acquisition of a building located at 800 Second Avenue, New York, New York and the building's subsequent conversion into an office condominium, are discussed elsewhere in this Report. See "Business."

ITEM 3. LEGAL PROCEEDINGS

In February 1995, Yakhin Hakal and its affiliates commenced a legal proceeding in Tel Aviv District Court seeking to cause Etz Vanir and Yakhin Mataim to redeem the perpetual debentures owned by Ampal for approximately \$700,000 and to require Ampal to surrender all of its preferred shares of Etz Vanir and Yakhin Mataim for their par value (which is a nominal amount), on the alleged grounds that the perpetual debentures are debt and not equity investments. It is Ampal's view that its investments in these companies, which were made in the 1950's, are equity investments and are not subject to redemption by these companies, other than upon liquidation. Ampal is contesting this legal proceeding.

On July 27, 1998, a Tel Aviv District Court judge ruled in favor of Yakhin Hakal, the manager and co-owner of Ampal's 50%-owned affiliates Etz Vanir and Yakhin Mataim. The judge's decision allows Etz Vanir and Yakhin Mataim to redeem debentures owned by Ampal for approximately \$800,000 and to require Ampal to surrender all of its preferred shares of Etz Vanir and Yakhin Mataim for their par value. After the redemption and surrender, Ampal will no longer have any interest in Etz Vanir or Yakhin Mataim.

At the request of Ampal's attorneys, the Tel Aviv District Court has issued a stay of performance of the judgment until the High Court of Appeals issues a final judgment. On October 15, 1998, Ampal filed an appeal with the High Court of Appeal in Jerusalem. It is not expected that a final judgment will be rendered before the end of 1999. See "Etz Vanir."

For a description of a claim for NIS 3.6 million asserted against Ampal Financial, see "Real Estate-Ampal Development (Israel) Ltd., Nir Ltd. and Ampal Financial Services Ltd."

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF CLASS A STOCK

Ampal's Class A Stock is listed on the AMEX under the symbol "AIS.A." The following table sets forth the high and low sales prices for the Class A Stock, as reported on the consolidated transaction reporting system for each calendar quarter during the periods indicated:

	HIGH ----	LOW ---
1998:		
Fourth Quarter.....	\$ 4 7/8	\$ 3 3/8
Third Quarter.....	5 5/8	4
Second Quarter.....	5 3/4	5 1/8
First Quarter.....	5 11/16	4 13/16
1997:		
Fourth Quarter.....	\$ 5 3/4	\$ 4 3/4
Third Quarter.....	6 1/4	5 3/8
Second Quarter.....	6 1/8	4 3/4
First Quarter.....	5 3/4	4 7/8

As of March 18, 1999, there were 1,105 record holders of Class A Stock.

Redeemable Warrants to purchase Class A Stock, issued in connection with Ampal's 1994 public offering, were listed on the AMEX under the symbol "AIS.WS." The warrants expired on January 31, 1999.

VOTING RIGHTS

Unless dividends on any outstanding preferred stock are in arrears for three successive years, as discussed below, the holders of Class A Stock are entitled to one vote per share on all matters voted upon. Notwithstanding the above, if dividends on any outstanding series of preferred stock are in arrears for three successive years, the holders of all outstanding series of preferred stock as to which dividends are in arrears shall have the exclusive right to vote for the election of directors until all cumulative dividend arrearages are paid. The shares of Class A Stock do not have cumulative voting rights, which means that any holder of at least 50% of the Class A Stock, can elect all of the members of Ampal's Board of Directors.

DIVIDEND POLICY

In 1995, Ampal paid a dividend of \$.21 per share on its Class A Stock and Common Stock. From 1989 through 1994 and in 1996, 1997 and 1998, Ampal did not pay a dividend on the Class A Stock, Ampal has never paid a dividend on its Common Stock other than in 1995. Past decisions not to pay cash dividends reflected the policy of Ampal to apply retained earnings, including funds realized from the disposition of holdings, to finance its business activities and to redeem debentures. The payment of cash dividends in the future will depend upon the Company's operating results, cash flow, working capital requirements and other factors deemed pertinent by the Board.

Dividends on all classes of Ampal's shares are payable as a percentage of par value. The holders of Ampal's presently authorized and issued 4% Preferred Stock and 6 1/2% Preferred Stock (each having a \$5.00 par value) are entitled to receive cumulative dividends at the rates of 4% and 6 1/2% per annum, respectively, payable out of surplus or net earnings of Ampal before any dividends are paid on the Class A Stock. If Ampal fails to pay such dividend on the preferred stock in any calendar year, such deficiency must be paid in full, without interest, before any dividends may be paid on the Class A Stock. If, after the payment of all cumulative dividends on the preferred stock and a non-cumulative 4% dividend on the Class A Stock, there remains any surplus, any dividends declared are to be participated in by the holders of 4% Preferred Stock and Class A Stock, pro rata. On December 16, 1998, Ampal announced that its Board of Directors, at its meeting held on December 9, 1998, had declared cash dividends on its preferred stock (\$0.325 per share on its 6 1/2% Preferred Stock and \$0.20 per share on its 4% Preferred Stock).

RECENT SALES OF UNREGISTERED SECURITIES

Pursuant to a Letter Agreement, dated as of March 1, 1997, among Ampal, Ampal Realty Corporation, a wholly-owned subsidiary of Ampal, and Emmes Asset Management Corp. ("Emmes"), Ampal agreed to issue to Mr. Andrew Davidoff, as custodian, 100 shares of Class A Stock for each of his three children each year for the duration of the effectiveness of the Letter Agreement. Emmes and Mr. Davidoff provide general asset management and property advisory services with respect to the building located at 800 Second Avenue in New York City. Emmes is a wholly-owned subsidiary of Emmes & Company LLC. Mr. Michael Sonnenfeldt, a former director of Ampal, was the founder and managing director of Emmes & Company LLC. On July 8, 1998, Ampal issued 300 shares to Mr. Davidoff, as custodian. See "Certain Relationships and Related Transactions" for a complete description of the Company's agreement with Emmes. The issuance to Mr. Davidoff of such shares was exempted from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of such Act.

ITEM 6

SELECTED FINANCIAL DATA

YEAR ENDED DECEMBER 31,	1998	1997	1996	1995	1994
	(Dollars in thousands, except per share data)				
Revenues	\$ 29,951	\$ 56,114	\$ 44,360	\$ 44,713	\$ 43,745
Net income (loss)	2,175	14,183	(10,252) (3)	2,166(3)	7,334(3)
Earnings (loss) per Class A share:					
Basic EPS	\$.08 (1)	\$.58 (1)	\$ (.45) (1) (3)	\$.07 (1) (3)	\$.30 (1) (3)
Diluted EPS	\$.07 (2)	\$.50 (2)	\$ (.45) (1) (3)	\$.06 (2) (3)	\$.25 (2) (3)
Total assets	329,246	262,274	283,551	312,094	301,194
Notes, deposits and debentures payable	131,010	65,053	102,414	115,881	95,995
Dividends declared per Class A share	\$ --	\$ --	\$ --	\$.21	\$ --

(1) Computation is based on net income (loss) after deduction of preferred stock dividends of \$335, \$351, \$364, \$560 and \$406, respectively.

(2) Computation is based on net income (loss) after deduction due to dilution in equity in earnings of affiliate of \$334, \$258, \$402 and \$556, respectively.

(3) Includes (loss) income from discontinued operations, as follows:

YEAR ENDED DECEMBER 31,	1998	1997	1996	1995	1994
(Loss) income from discontinued operations	\$ --	\$ --	\$ (2,892)	\$ (4,315)	\$ 969
(Loss) earnings per Class A share from discontinued operations:					
Basic EPS	\$ --	\$ --	\$ (.12)	\$ (.18)	\$.04
Diluted EPS	\$ --	\$ --	\$ (.12)	\$ (.18)	\$.04

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The "Company" (refers to Ampal-American Israel Corporation ("Ampal"), and its consolidated subsidiaries) acquires interests in businesses located in the State of Israel or that are Israel-related. The Company seeks to invest in companies which have long-term growth potential. The Company is involved in a broad cross-section of Israeli companies engaged in various fields including high technology and communications, hotels and leisure-time, real estate, finance, energy distribution and industry. The Company generally participates in the management of its investee companies through representation on boards of directors and otherwise.

The Company emphasizes long-term appreciation over short-term returns and liquidity. The Company often makes equity investments accompanied by more significant loans or loan guarantees with the intention that cash flow from operations of the investee companies will repay these loans.

The Company's results of operations are directly affected by the results of operations of its investees. The results of companies which are greater than 50%-owned are included in the consolidated financial statements of the Company. The Company accounts for its holdings in investees over which the Company exercises significant influence, generally 20%- to 50%-owned companies ("affiliates"), under the equity method. Under the equity method, the Company recognizes its proportionate share of such companies' income based on its percentage of direct and indirect equity interests in earnings of those companies. If the Company's interest in a subsidiary were to be reduced to 20%-50%, the investment would be recorded under the equity method. The Company's results of operations are affected by capital transactions of the affiliates. Thus, the issuance of shares by an affiliate at a price per share above the Company's carrying value per share for such affiliate results in the Company recognizing income for the period in which such issuance is made, while the issuance of shares by such affiliate at a price per share that is below the Company's carrying value per share for such affiliate results in the Company recognizing a loss for the period in which such issuance is made. The Company accounts for its holdings in investees, other than those described above, on the cost method (see later discussion regarding Investment in MIRS) or in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

A comparison of the Company's financial statements from year to year must be considered in light of the Company's acquisitions and divestitures during each period.

For those subsidiaries and affiliates whose functional currency is considered to be the New Israeli Shekel ("NIS"), assets and liabilities are translated at the rate of exchange at the end of the reporting period and revenues and expenses are translated at the average rates of exchange during the reporting period. Translation differences of those foreign companies' financial statements are included in the cumulative translation adjustment account (reflected in accumulated other comprehensive loss) of shareholders' equity.

Should the NIS be devalued against the dollar, cumulative translation adjustments are likely to result in a reduction in shareholders' equity. As of December 31, 1998, the effect on shareholders' equity was a decrease of approximately \$18.6 million. Upon disposition of an investment, the related cumulative translation adjustment balance will be recognized in determining gains or losses.

YEAR 2000 COMPLIANCE

The Company has completed the process of identifying, evaluating and implementing changes to computer programs necessary to address the year 2000 issue which is the result of

computer programs having been written using two digits instead of four to define a year. This issue affects computer systems that have date sensitive programs that may recognize a date using "00" as 1900 rather than 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail, resulting in business interruption. The Company presently expects that with modifications to existing systems and software and converting to new software, the Year 2000 issue will not pose an operational problem and does not believe the cost of converting all internal systems to be year 2000 compliant will be material to its financial condition or results of operations. Costs related to the year 2000 issue are being expensed as incurred. The Company expects to complete all of its Year 2000 modifications by the end of 1999.

The year 2000 issue is expected to affect the systems of various entities with which the Company interacts. However, there can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure by another company's systems to be year 2000 compliant would not have a material adverse effect on the Company.

INTRODUCTION OF THE EURO

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies and a new currency called the "Euro." These countries agreed to adopt the Euro as their common legal currency on that date. The Euro trades on currency exchanges and is available for non-cash transactions. Until January 1, 2002, the existing sovereign currencies will remain legal tender in these countries. On January 1, 2002, the Euro is scheduled to replace the sovereign legal currencies of these countries.

The Company does not conduct operations in Europe. However, there are no assurances that the implementation of the Euro will not have an adverse material affect on the Company's financial condition and results of operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company will adopt SFAS No. 133 in the first quarter of 2000. The Company doesn't believe that the adoption of this SFAS will have a material effect on its financial condition or on the results of its operations.

DISCONTINUED OPERATIONS

On December 23, 1996, the Company sold all of its equity interest in Pri Ha'emek (Canned and Frozen Food) 88 Ltd. ("Pri Ha'emek") to Agrifarm International Limited ("Agrifarm"), a British company. Accordingly, the results of Pri Ha'emek have been presented as discontinued operations in the Company's 1996 consolidated financial statements. In connection with the sale, the Company recorded a loss on disposition of \$3.2 million and a tax benefit of \$3.9 million, which was based on a total loss of its investment in Pri Ha'emek in the amount of \$9.7 million.

RESULTS OF OPERATIONS

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Consolidated net income decreased from \$14.2 million in 1997, to \$2.2 million in 1998. The decrease in net income is primarily attributable to the decrease in equity in earnings of affiliates, lower realized gains on investments, unrealized losses on investments in 1998 as compared to unrealized gains in 1997, and net interest expense in 1998 as compared to net interest income in 1997. These decreases were partially offset by income tax benefits and lower other expenses in 1998.

Equity in earnings of affiliates decreased to \$7.3 million in 1998, from \$18.7 million in 1997. The decrease is primarily attributable to the decreased earnings of Ophir Holdings Ltd. ("Ophir"), the Company's 42.5%-owned affiliate, which is a holding company with interests in high technology and real estate companies. Ophir reported lower earnings in 1998 as compared to 1997, primarily due to lower realized and unrealized gains on investments as a result of the sale of shares of Teledata Communications Ltd. ("Teledata") in 1997.

The decrease in the equity in earnings of affiliates was partially offset by the increased earnings of Granite Hacarmel Investments Ltd. ("Granite"), Trinet Venture Capital Ltd. ("Trinet"), Carmel Container Systems Limited ("Carmel"), and Moriah Hotels Ltd. ("Moriah"). Granite, the Company's 19.1%-owned affiliate, which is one of Israel's largest distributors of refined petroleum products, recorded higher earnings in 1998 due to improved gross profit margins and a gain on sale of real estate property. Trinet, the Company's 50%-owned affiliate, a high-technology venture capital fund, recorded large unrealized losses in 1997. Carmel, the Company's 20.7%-owned affiliate, which is a manufacturer of paper-based packaging products, also recorded higher earnings in 1998 due to the improved efficiency at Carmel's new manufacturing plant in Caesarea and increased sales of containers to the local market, despite the economic slowdown in Israel. Moriah, the Company's 46%-owned affiliate (see Subsequent Event), which owns and operates hotels in Israel reported higher earnings as a result of lower administrative expenses and higher translation gains in 1998.

In 1998, the Company recorded \$1.4 million of unrealized losses on investments in trading securities, which are primarily attributable to the Company's investment during the third quarter of 1998 in the shares of Bank Leumi Le'Israel B.M. ("Leumi") in the amount of approximately \$21 million. The Company recorded \$.9 million of unrealized gains on investments in trading securities in 1997 primarily attributable to its investment in Mercury Interactive Corporation ("Mercury"). At December 31, 1998 and December 31, 1997, the aggregate fair value of trading securities amounted to approximately \$26.3 million and \$7.5 million, respectively.

In 1998, the Company recorded \$.8 million of gains on sale of investments, which are primarily attributable to its investments in Mercury, Shikun U'Fituach Le'Israel Ltd., Fundtech Ltd. and M-Systems Flash Disk Pioneers Ltd. In 1997, the Company recorded \$4.5 million of gains on sale of investments, \$2.9 million of which is attributable to its direct investment in Teledata Communications Ltd. ("Teledata").

The Company recorded net interest expense in the amount of \$7 million in 1998, as compared to net interest income of \$.5 million in 1997. The net interest expense is primarily attributable to bank borrowings in connection with the Company's investment in MIRS Communication Company Ltd. ("MIRS").

In the fourth quarter of 1998, Granite issued additional shares upon conversion of its debentures, and the Company's interest in Granite was diluted from 21.5% to 19.1%. As a result of the dilution the Company recorded a gain on issuance of shares in the amount of \$1 million.

Manufacturing revenues and expenses, which reflect the operations of Paradise Industries Ltd. ("Paradise"), the Company's 85.1%-owned subsidiary, which is a manufacturer and distributor of mattresses and fold-out beds in Israel, decreased as a result of the slowdown in the Israeli economy in 1998.

The Company recorded a \$1.9 million loss from impairment of its investments in Mutek Solutions Ltd., Ortek Ltd., Medco Electronics Systems and Geotek Communications Ltd. ("Geotek") in 1998. In 1997, the Company recorded a \$2.2 million loss on impairment of its investments in U.D.S. - Ultimate Distribution Systems Ltd. and Geotek.

Other expenses decreased in 1998 as compared to the same period in 1997, primarily as a result of a decrease in administrative expenses and the effect of translation.

Income tax benefit in 1998 resulted from the utilization of foreign tax credits on dividends received from the affiliates.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Consolidated income from continuing operations increased to \$14.2 million in 1997, from a \$7.4 million loss in 1996. The increase resulted primarily from the increases in equity in earnings of affiliates, realized and unrealized gains on investments, net interest income in 1997 as compared to net interest expense in 1996, lower losses from impairment of investments, increase in other income, and the absence of an unrealized loss on rental property in 1997 which was recorded in 1996. These increases were partially offset by a decrease in net rental income and a restructuring charge recorded in 1997.

Equity in earnings of affiliates increased from \$6.3 million in 1996, to \$18.7 million in 1997. The increase is primarily attributable to the significantly improved earnings of Ophir and to increased earnings of Coral World International Ltd. ("CWI"), the Company's 50%-owned affiliate, which owns and operates marine parks in Eilat (Israel) and Perth and Manly (Australia). The increase in Ophir's 1997 earnings resulted primarily from realized and unrealized gains on its investment in Teledata, gains on sale of office and commercial real estate and lower interest expense which resulted from repayments of loans.

CWI reported earnings in 1997 as compared to losses in 1996. The losses recorded by CWI in 1996 were primarily attributable to the company's investments in marine parks in Nassau (Bahamas) and St. Thomas (U.S. Virgin Islands), which were sold in September 1996 and April 1997, respectively.

The increases noted above were partially offset by the unrealized losses recorded on its investments by Trinet in 1997 as compared to unrealized gains in 1996, and losses of Carmel. Carmel recorded losses in 1997 as compared to earnings in 1996 primarily because of a decrease in sales volume as a result of the economic slowdown in Israel, a decrease in sales prices as a result of escalating competition, an increase in costs associated with the running-in of a new plant and the one-time expenses incurred with respect to the closing of old plants.

Moriah also recorded losses in 1997 primarily because of the decrease in occupancy rates (excluding the hotel in Tel Aviv) as a result of the decrease in tourism to Israel in 1997 and higher rental expenses pertaining to its hotel in Tel Aviv.

In 1997 the Company recorded \$4.5 million of gains on sale of investments, \$2.9 million of which is attributable to its direct investment in Teledata, as compared to \$2 million of gains on sale of investments, including \$1.5 million with respect to Teledata, which was recorded in 1996.

The Company also recorded \$.9 million of unrealized gains on investments which are classified as trading securities as compared to \$.1 million of unrealized losses on investments in trading securities in 1996. At December 31, 1997 and December 31, 1996, the aggregate fair value of trading securities amounted to approximately \$7.5 million and \$4.9 million, respectively.

The Company recorded net interest income in 1997, as compared to net interest expense in 1996. The increase in net interest income is primarily attributable to debt reduction in connection with the sale of a condominium unit in an office building located at 800 Second Avenue, New York, New York. Also, as a result of this transaction, the Company recorded a loss of \$1.1 million (\$.6 million net of taxes) in its December 31, 1996 financial statements. The decrease in rental income and rental property expenses are also attributable to the sale of the condominium unit.

In 1997, the Company recorded \$2.2 million of losses from impairment of its investments in its 21.9%-owned Israeli-based software company, U.D.S. - Ultimate Distribution Systems Ltd., and in Geotek, an international wireless telecommunications company. In 1996 the Company recorded a \$10.1 million loss (\$8.6 million net of taxes) from impairment of its investment in M.D.F. Industries Ltd. ("M.D.F.").

On June 26, 1997, the main factory of the Company's 85%-owned manufacturing subsidiary, Paradise was heavily damaged by a fire. Paradise was, however, able to resume its activities at the end of the third quarter by assembling mattresses and sofa beds out of its newly-built assembly plant rather than manufacturing them. Paradise uses imported and domestically produced components in its assembly process. Paradise carried both fire

damage and business interruption insurance covering the factory. In December 1997, Paradise settled with the insurance company and agreed to accept \$7.1 million of compensation for the damage caused by the fire. Paradise received \$6.8 million of the insurance proceeds in December 1997 and the balance in early 1998. The insurance recovery for the loss of profits caused by fire was \$.8 million. This income is included in other income in the Company's 1997 consolidated income statement. Paradise was also compensated for the additional expenses it incurred as a result of the fire. The insurance proceeds covering these expenses were offset against the Company's manufacturing expenses in 1997. At December 31, 1997, Paradise deferred \$.7 million with respect to the proceeds received from the insurance company for the expenses incurred in early 1998 as a result of the fire.

During 1997, in connection with management's plan to reorganize operations and reduce costs, the Company recorded a restructuring charge of \$1.3 million (\$.7 million was recorded in the quarter ended December 31, 1997). This restructuring which resulted in the elimination of certain corporate positions was completed in early 1998, and primarily related to severance and other employee related costs.

The change in the effective income tax rate in 1997 as compared to 1996 is mainly attributable to the losses of certain Israeli subsidiaries in 1996 for which no tax benefits were available, and to the utilization of foreign tax credits in 1997 which were previously not available.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, cash and cash equivalents were approximately \$12 million as compared with \$45.5 million at December 31, 1997. The decrease in cash and cash equivalents and increase in investments are primarily attributable to the investments in MIRS (See "Investment in MIRS") and Leumi (See "Discussion of Results of Operations - Year ended December 31, 1998 compared to year ended December 31, 1997"). The decreases in cash and cash equivalents attributable to the aforementioned investments were partially offset by dividends received from affiliates, which amounted to \$26.2 million. The increases in notes and loans payable and minority interests are also attributable to the investment in MIRS. The decreases in deposits, notes and loans receivable and debentures are primarily attributable to scheduled repayments.

In addition to the investment in MIRS, the Company made the following investments in the high-technology field in the year ended December 31, 1998, notably; (1) a \$2.5 million investment to acquire a 9% interest in Smartlight Ltd., a developer and marketer of innovative digital film viewers for use in the diagnosis of medical images; (2) a \$2.1 million investment to acquire an additional 8.6% of XaCCT Technologies Ltd. (total equity interest - 18.4%), a developer of billing, auditing and accounting software for TCP/IP networks; (3) a \$1 million investment to acquire an additional 3.8% of PowerDsine Ltd. (total equity interest - 11.9%, after dilution), a developer, manufacturer and marketer of innovative modules and components for the telecommunications industry; (4) a \$1 million investment to acquire a 1.75% equity interest in Compugen Ltd., a developer of algorithms and models for the interpretation of biological processes; (5) a \$.4 million investment to acquire an additional 2% in its existing investee NetFormX Ltd. (formerly Imagenet Ltd., total equity interest-21%), a developer of CANER(C) family of network design, analysis and simulation tools; and (6) \$.3 million to maintain its equity interest in its existing investee, Qronus Interactive Israel (1994) Ltd., a developer and marketer of software testing tools.

As of December 31, 1998, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$12.2 million, and has commitments issued to its investees of up to \$13 million.

In 1998 and 1997, Ampal paid dividends in the amount of \$.20 and \$.325 per share on its 4% and 6-1/2% Cumulative Convertible Preferred Stocks, respectively. Total dividends paid in both years amounted to approximately \$.3 million and \$.4 million, respectively.

INVESTMENT IN MIRS

On January 22, 1998 (the "Closing Date"), the Company completed its purchase of a one-third interest in the assets of the shared networks operation ("SNO") of Motorola Communications Israel, Ltd. ("Motorola Israel") for a base purchase price of approximately \$110 million. The payment for the purchase price was obtained from the Company's own resources as well as from two short-term bridge loans ("Short-Term Loans"), one in the amount of \$40 million from Bank Leumi USA (of which \$8 million plus interest was repaid on February 2, 1998) and a second in the amount of \$35 million from Bank Hapoalim B.M. ("Hapoalim"). Each loan had a term of 90 days, bore interest at a rate of LIBOR plus 1/2% and was repaid in full from the proceeds of the long-term loans described below.

A new wireless communications service provider, MIRS Communication Company Ltd. ("MIRS"), initially one-third owned by the Company and two-thirds owned by Motorola Israel, coordinates and operates in Israel the digital and analog public-shared two-way radio and other services previously furnished by Motorola Israel. The digital wireless communication service is based on Motorola Israel's iDENTM integrated wireless communication technology, which is known as MIRS in Israel.

In March 1998, the Company transferred its interest in MIRS to a limited partnership (the "Partnership"). A wholly-owned Israeli subsidiary of Ampal (the "General Partner") is the general partner of the Partnership and owns 75.1% of the Partnership. The limited partners of the Partnership purchased their interests in the Partnership from the Partnership and include (i) an entity owned by Daniel Steinmetz and Raz Steinmetz (directors of Ampal and the controlling persons of Ampal's principal shareholder), which acquired a 9.1% interest in the Partnership for \$10 million, (ii) Hapoalim, which acquired a 7.45% interest in the Partnership for \$8.195 million, (iii) an unrelated third party (The Israel Mezzanine Fund L.P., a limited partnership whose general partner is First Israel Mezzanine Investors Ltd.), which acquired a 7.45% interest in the Partnership for \$8.195 million, and (iv) an entity owned by Dr. Yehoshua Gleitman, Ampal's Chief Executive Officer, which purchased a 0.9% interest for \$1 million. In addition to the purchase price, the limited partners also reimbursed the Company for their pro rata share of the expenses incurred by the Company in connection with the original purchase from Motorola Israel (including interest from the Closing Date until the purchase date of the limited partnership interests).

The related parties purchased their limited partnership interests on the same terms as the unrelated third party which were determined through arm's length negotiations between the Company and the unrelated third party.

Each of the limited partners paid 35% of their respective purchase price in cash and assumed their pro rata share of Ampal's financing of the original purchase (equal to 65% of their respective purchase prices) and assumed their pro rata share of the Partnership's long-term financing. A portion of Dr. Gleitman's entity's purchase price was obtained through two loans aggregating \$250,000 from the Company. One loan, in the amount of \$150,000, has a term of 10 years, an interest rate of LIBOR plus 0.8% and is without recourse to Dr. Gleitman. The second loan, in the amount of \$100,000, has a term of 10 years, an interest rate of LIBOR plus 0.5% and is with recourse to Dr. Gleitman. Both loans are secured by Dr. Gleitman's interest in the Partnership.

The Partnership has been assigned all of the Company's rights under the original purchase agreement with Motorola Israel and has assumed all of its obligations.

On May 4, 1998, the Partnership received two long-term loans from Hapoalim and Bank Leumi Le'Israel B.M. in the amount of \$36.4 million, each. Both loans are due on March 31, 2008 and bear interest at a rate of LIBOR plus 0.8%. The principal payments are due as follows: 10% on March 31, 2004, 15% on March 31, 2005 and 25% on each of the following dates - March 31, 2006, 2007 and 2008. Interest will be paid annually on March 31 of each year from March 31, 2001 until and including March 31, 2008. The proceeds from the long-term loans were used to repay the Short-Term Loans.

The Partnership owns all of the authorized preferred shares of MIRS and Motorola Israel owns all of the authorized ordinary shares. Each share issued by MIRS is entitled to one vote.

The Company accounts for its investment in MIRS using the cost method of accounting. Under the cost method, the Company recognizes income from dividends as they are declared.

To the extent of available after-tax profits, MIRS is required to pay dividends to the Partnership equal to at least \$3,800,000 for fiscal year 2000 and \$7,100,000 for each fiscal year thereafter, so long as the financial stability of MIRS will not be impaired. MIRS shall endeavor to pay dividends in the following amounts: for fiscal year 1998, \$4,950,000, for fiscal year 1999, \$10,725,000 and for fiscal year 2000 and thereafter, \$23,430,000 (inclusive of the required payments), which all holders of an interest in MIRS shall share on a pro rata basis. To the extent that any of the above dividends are not paid by MIRS, they will accumulate. No dividends will be paid by MIRS to Motorola Israel until the Partnership has received all of its accumulated dividends. Any dividends which are paid in excess of the above amounts for a given fiscal year will similarly be paid pro rata to the Partnership and Motorola Israel based on their shares in MIRS. Pursuant to the original purchase agreement, Motorola Israel guaranteed that the Partnership would receive from MIRS at least \$3,800,000 for fiscal year 2000 and \$7,100,000 for each fiscal year between 2001 and 2005 inclusive, subject to an obligation of the Partnership to repay such guarantee payments in amount equal to the excess of the amount actually received by the Partnership from MIRS with respect to any subsequent year over \$7,500,000.

Motorola Israel has agreed to make certain payments to the Partnership in the event that, prior to the thirteenth anniversary of the Closing Date, there is a dissolution, liquidation, bankruptcy, winding up, or sale of all or substantially all of the assets of MIRS and the total proceeds to the shareholders of MIRS is less than \$450 million.

The \$110 million base purchase price for the Partnership's one-third interest in MIRS was based upon the Company's valuation of the SNO and its prospects. The original purchase agreement provides that under specified circumstances indicating that there has been an increase in the enterprise value of MIRS, the Partnership must pay Motorola Israel an additional amount (the "Bonus"). The formula for the Bonus varies depending upon whether an initial public offering of MIRS' shares (an "IPO") has been consummated. If an IPO is consummated prior to December 31, 2002, the Partnership must pay Motorola Israel the Bonus based on an increase in the valuation of MIRS for purposes of the IPO. In no event will such Bonus exceed \$33 million multiplied by 1.16n, where n represents the number of years (and any part thereof) between the Closing Date and the closing of the IPO.

If an IPO is not consummated prior to December 31, 2002 and if all dividends accumulated with respect to the Partnership's preferred shares up to that time have been paid, then the Partnership must pay Motorola Israel a Bonus if (A) the present value of the actual after tax net income of MIRS (as reported by MIRS' auditors in compliance with generally accepted accounting principles in Israel, excluding capital gains derived from each transaction, not in the ordinary course of business, in which the consideration for MIRS is more than \$5 million) for fiscal years 1998 through 2002, discounted at the rate of 13%, exceeds (B) \$71 million. In this case, the amount of the Bonus, if any, will equal the lesser of (i) the amount of such excess multiplied by 2.3376, or (ii) \$46 million.

On March 21, 1999, MIRS declared a dividend, the Company's share of which amounts to \$.9 million (net of minority interest).

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. This analysis presents the hypothetical loss in earnings, cash flows and fair values of the financial instruments which are held by the Company at December 31, 1998, and are sensitive to the above market risks.

Interest Rate Risks

At December 31, 1998, the Company had financial assets totalling \$38.6 million and financial liabilities totalling \$131 million, respectively. 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 held constant.

At December 31, 1998, the Company had fixed rate financial assets of \$27.3 million and variable rate financial assets of \$11.3 million. Holding other variables constant, a ten percent increase in interest rates would decrease the unrealized fair value of the fixed financial assets by approximately \$.3 million.

At December 31, 1998, the Company had fixed rate debt of \$40.2 million and variable rate debt of \$90.8 million. A ten percent decrease in interest rates would increase the unrealized fair value of the fixed rate debt by approximately \$.7 million. The net decrease in earnings for the next year resulting from a ten percent interest rate increase would be approximately \$.5 million, holding other variables constant.

Exchange Rate Sensitivity Analysis

The Company's exchange rate exposure of its financial instruments results from its investments and ongoing operations in Israel. The Company doesn't utilize foreign exchange forward contracts to hedge this exposure. Holding other variables constant, if there were a ten percent adverse change in foreign currency exchange rates, the Company's earnings would decrease by \$1.9 million and cumulative translation loss (reflected in the Company's accumulated other comprehensive loss) would increase by \$1.1 million.

Equity Price Risk

The Company's investments at December 31, 1998, included marketable securities which are recorded at fair value of \$26.3 million, including net unrealized losses of \$3.6 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges is approximately \$2.6 million.

SUBSEQUENT EVENTS

On January 25, 1999, the Company accepted a tender from Koor Tourism Enterprises (which tendered, jointly with the Sheraton International chain) for the acquisition of the Radison Moriah Hotels chain ("Moriah"), the Company's 46%-owned affiliate, for \$37.5 million. This transaction was approved by the Israel Anti-Trust Commissioner. If the aforementioned transaction is consummated, the Company will record a gain on sale in the amount of approximately \$12.4 million (\$8 million, net of income taxes). In the event that Moriah distributes the dividends prior to the completion of the sale, the sales price will be adjusted by the amount of the dividends received.

Hapoalim approached Ampal to commence negotiations regarding the potential purchase by Ampal and its subsidiaries of Hapoalim's entire holdings in Ampal. In connection with the proposed transaction, Ampal's Related Party Transactions Committee approved on March 22, 1999 to continue the negotiations with Hapoalim to acquire the entire Hapoalim holdings in Ampal in exchange for consideration consisting of cash and certain real estate properties currently leased to Hapoalim.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Ampal-American Israel Corporation and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect assets and revenues of 19% and 6%, respectively, in 1998, 18% and 32%, respectively, in 1997, and revenues of 44% in 1996, of the related consolidated totals. Also, we did not audit the financial statements of certain affiliated companies, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The Company's equity in net earnings of these affiliated companies represents \$7,995,000, \$18,611,000, and \$10,443,000 of consolidated net income (loss) for the years ended December 31, 1998, 1997 and 1996, respectively. The statements of these subsidiaries and affiliated companies were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Ampal-American Israel Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

New York, New York
March 25, 1999

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31,	1998	1997	1996
(Dollars in thousands, except per share data)		(Note 1)	(Note 1)
REVENUES:			
Equity in earnings of affiliates (Note 12)	\$ 7,328	\$ 18,703	\$ 6,333
Manufacturing	6,768	12,127	10,891
Interest:			
Related parties	4,339	6,988	9,918
Others	987	2,743	1,956
Rental income	7,302	7,107	11,663
Realized and unrealized (losses) gains on investments (Notes 3 and 5)	(568)	5,466	1,342
Gain on issuance of shares by affiliate	1,032	--	--
Other	2,763	2,980	2,257
Total revenues	29,951	56,114	44,360
EXPENSES:			
Manufacturing	8,492	12,569	12,027
Interest:			
Related parties	5,122	2,544	3,918
Others	7,195	6,719	10,163
Rental property operating expenses	3,550	3,273	5,670
Loss from impairment of investments (Notes 3 and 12)	1,890	2,185	10,083
Unrealized loss on rental property (Note 3)	--	--	1,095
Minority interests	(1,345)	(220)	(551)
Other	6,393	8,250	7,416
Total expenses	31,297	35,320	49,821
Restructuring charge (Note 16)	--	1,300	--
(Loss) income from continuing operations before income taxes	(1,346)	19,494	(5,461)
(Benefit) provision for income taxes (Note 11)	(3,521)	5,311	1,899
Income (loss) from continuing operations	2,175	14,183	(7,360)
Discontinued operations (Note 2):			
Loss from operations	--	--	(3,610)
Loss on disposition of \$3,169, net of applicable tax benefit of \$3,887	--	--	718
Loss from discontinued operations	--	--	(2,892)
NET INCOME (LOSS)	\$ 2,175	\$ 14,183	\$(10,252)
Basic EPS (Note 10)			
Earnings (loss) from continuing operations	\$.08	\$.58	\$ (.33)
Loss from discontinued operations	--	--	(.12)
Earnings (loss) per Class A share	\$.08	\$.58	\$ (.45)
Shares used in calculation (in thousands)	23,911	23,742	23,549
Diluted EPS (Note 10)			
Earnings (loss) from continuing operations	\$.07	\$.50	\$ (.33)
Loss from discontinued operations	--	--	(.12)
Earnings (loss) per Class A share	\$.07	\$.50	\$ (.45)
Shares used in calculation (in thousands)	27,624	27,615	23,549

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

31, ASSETS AS AT	DECEMBER 31, 1998	DECEMBER 1997

(Dollars in thousands)		(Note 1)
Cash and cash equivalents	\$ 12,047	\$ 45,457
Deposits, notes and loans receivable (Note 4)	27,816	46,176
Investments (Notes 5 and 12)	214,421	92,720
Investment held for sale (Note 17)	25,104	24,664
Real estate rental property, less accumulated depreciation of \$6,492 and \$5,902 (Note 3)	29,735	28,603
Property and equipment, less accumulated depreciation of \$2,608 and \$2,596	3,227	3,899
Other assets	16,896	20,755
	-----	-----
TOTAL ASSETS	\$329,246	\$262,274
	=====	=====

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND 31, SHAREHOLDERS' EQUITY AS AT	DECEMBER 31, 1998	DECEMBER 1997

(Dollars in thousands)		(Note 1)
LIABILITIES		
Notes and loans payable: (Note 6)		
Related parties	\$ 57,557	\$ 18,207
Others	40,636	5,000
Debentures (Note 7)	32,817	41,846
Accounts and income taxes payable, accrued expenses and minority interests	37,071	34,711
	-----	-----
Total liabilities	168,081	99,764
	-----	-----
SHAREHOLDERS' EQUITY (Note 8)		
4% Cumulative Convertible Preferred Stock, \$5 par value; authorized 189,287 shares; issued and outstanding 172,238 and 179,672 shares	861	898
6-1/2% Cumulative Convertible Preferred Stock, \$5 par value; authorized 988,055 shares; issued and outstanding 925,279 and 968,288 shares	4,626	4,842
Class A Stock, \$1 par value; authorized 60,000,000 shares; issued 24,684,822 and 24,418,325 shares; outstanding 24,079,422 and 23,812,925 shares	24,685	24,418
Additional paid-in capital	57,829	57,491
Retained earnings	90,615	88,775
Treasury Stock, 605,400 shares of Class A Stock, at cost	(3,829)	(3,829)
Accumulated other comprehensive loss	(13,622)	(10,085)
	-----	-----
Total shareholders' equity	161,165	162,510
	-----	-----
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 \$ 329,246	 \$ 262,274
	=====	=====

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

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

YEAR ENDED DECEMBER 31,	1998	1997	1996

(Dollars in thousands)		(Note 1)	(Note 1)
Cash flows from operating activities:			
Net income (loss)	\$ 2,175	\$ 14,183	\$ (10,252)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in earnings of affiliates	(7,328)	(18,703)	(6,333)
Loss from discontinued operations	--	--	2,892
Realized and unrealized losses (gains) on investments	568	(5,466)	(1,342)
Gain on issuance of shares by affiliate	(1,032)	--	--
Unrealized loss on rental property	--	--	1,095
Depreciation expense	1,338	1,559	2,038
Amortization expense	1,403	1,754	3,587
Loss from impairment of investments	1,890	2,185	10,083
Restructuring charge	--	1,300	--
Minority interests	(1,345)	(220)	(551)
Translation (gain) loss	(623)	68	(143)
Decrease (increase) in other assets	2,239	565	(3,158)
(Decrease) increase in accounts and income taxes payable, accrued expenses and minority interests	(7,847)	4,742	(89)
Investments made in trading securities	(30,838)	(9,143)	(2,391)
Proceeds from sale of trading securities	11,333	8,359	3,254
Dividends received from affiliates	26,245	9,719	1,806
	-----	-----	-----
Net cash (used in) provided by operating activities	(1,822)	10,902	496
	-----	-----	-----
Cash flows from investing activities:			
Deposits, notes and loans receivable collected .	16,641	27,124	17,546
Deposits, notes and loans receivable granted ...	(723)	(1,024)	(2,046)
Investments made in:			
Available-for-sale securities	--	--	(228)
Affiliates and others	(119,844)	(11,159)	(11,497)
Proceeds from sale of investments:			
Available for sale securities	353	1,537	--
Affiliates and others	1,294	25,212	14,934
Real estate rental property-capital improvements	(2,895)	(1,034)	(2,475)
Purchase of property and equipment	(333)	(1,182)	(380)
Proceeds from sale of real estate rental property	--	15,059	--
	-----	-----	-----
Net cash (used in) provided by investing activities	(105,507)	54,533	15,854
	-----	-----	-----

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

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

YEAR ENDED DECEMBER 31,	1998	1997	1996

(Dollars in thousands)		(Note 1)	(Note 1)
Cash flows from financing activities:			
Notes and loans payable received:			
Related parties	\$ 83,497	\$ 4,050	\$ 2,187
Others	69,055	931	8,201
Notes and loans payable repaid:			
Related parties	(44,251)	(20,091)	(4,866)
Others	(32,976)	(6,184)	(1,950)
Debentures repaid	(8,283)	(17,301)	(22,180)
Contribution to partnership by minority interests	9,765	--	--
Issuance of shares to related parties and others	352	--	--
Dividends paid	(335)	(351)	(364)
	-----	-----	-----
Net cash provided by (used in) financing activities	76,824	(38,946)	(18,972)
	-----	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(2,905)	(1,665)	(2,479)
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(33,410)	24,824	(5,101)
Cash and cash equivalents at beginning of year ..	45,457	20,633	25,734
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 12,047	\$ 45,457	\$ 20,633
	=====	=====	=====
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year:			
Interest:			
Related parties	\$ 1,941	\$ 1,257	\$ 2,384
Others	2,721	2,820	3,309
	-----	-----	-----
Total interest paid	\$ 4,662	\$ 4,077	\$ 5,693
	=====	=====	=====
Income taxes paid	\$ 2,037	\$ 714	\$ 3,729
	=====	=====	=====

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

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

YEAR ENDED DECEMBER 31,	1998	1997	1996
		(Note 1)	(Note
1) (Dollars in thousands, except share amounts and per share data)			
4% PREFERRED STOCK			
Balance, beginning of year	\$ 898	\$ 955	\$ 995
Conversion of 7,434, 11,264 and 8,094 shares into Class A Stock	(37)	(57)	
(40)			
Balance, end of year	\$ 861	\$ 898	\$ 955
6-1/2% PREFERRED STOCK			
Balance, beginning of year	\$ 4,842	\$ 5,012	\$ 5,263
Conversion of 43,009, 34,195 and 50,116 shares into Class A Stock	(216)	(170)	
(251)			
Balance, end of year	\$ 4,626	\$ 4,842	\$ 5,012
CLASS A STOCK			
Balance, beginning of year	\$ 24,418	\$ 24,257	\$ 21,066
Issuance of shares upon exchange of Common Stock	--	--	3,000
Issuance of shares upon conversion of Preferred Stock	167	158	191
Issuance of shares to related party (Note 9) ...	100	--	--
Issuance of additional shares	--	3	--
Balance, end of year	\$ 24,685	\$ 24,418	\$ 24,257
COMMON STOCK			
Balance, beginning of year	\$ --	\$ --	\$ 3,000
Exchange for Class A Stock	--	--	
(3,000)			
Balance, end of year	\$ --	\$ --	\$ --
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	\$ 57,491	\$ 57,410	\$ 57,310
Conversion of Preferred Stock	86	69	100
Issuance of shares to related party (Note 9) ...	250	--	--
Issuance of additional shares	2	12	--
Balance, end of year	\$ 57,829	\$ 57,491	\$ 57,410
RETAINED EARNINGS			
Balance, beginning of year	\$ 88,775	\$ 74,943	\$ 85,559
Net income (loss)	2,175	14,183	
(10,252)			
Dividends:			
4% Preferred Stock - \$.20 per share	(34)	(36)	
(38)			
6-1/2% Preferred Stock - \$.325 per share	(301)	(315)	
(326)			
Balance, end of year	\$ 90,615	\$ 88,775	\$ 74,943

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

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

YEAR ENDED DECEMBER 31,	1998	1997	1996
		(Note 1)	(Note
1) (Dollars in thousands, except share amounts and per share data)			
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year	\$(10,085)	\$ (6,628)	\$
(4,949)			
Cumulative translation adjustments:			
Balance, beginning of year	\$(10,085)	\$ (6,530)	\$
(4,354)			
Foreign currency translation adjustment	(8,495)	(3,555)	
(2,176)			
Balance, end of year	\$(18,580)	\$(10,085)	\$
(6,530)	=====	=====	=====
Unrealized gain (loss) on marketable securities:			
Balance, beginning of year	\$ --	\$ (98)	\$
(595)			
Unrealized gain (loss), net	4,958	98	
(81)			
Transfer to trading securities	--	--	67
Write-down due to permanent impairment	--	--	511
Balance, end of year	\$ 4,958	\$ --	\$
(98)	-----	-----	-----
Balance, end of year	\$(13,622)	\$(10,085)	\$
(6,628)	=====	=====	=====

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31,	1998	1997	1996

(Dollars in thousands)			
Net income (loss)	\$ 2,175	\$ 14,183	
\$(10,252)	-----	-----	-----
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments	(8,495)	(3,555)	
(2,176)			
Unrealized gain (loss) on securities	4,958	98	
(81)	-----	-----	-----
Other comprehensive (loss) income	(3,537)	(3,457)	
(2,257)	-----	-----	-----
Comprehensive (loss) income	\$ (1,362)	\$ 10,726	
\$(12,509)	=====	=====	=====
Related tax (expense) benefit of other comprehensive (loss) income:			
Foreign currency translation adjustments	\$ 1,248	\$ 206	\$ 317
Unrealized gain (loss) on securities	\$ (2,670)	\$ (53)	\$ 42

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

Note 1 - Summary of Significant Accounting Policies

(a) The Company

As used in these financial statements, the term the "Company" refers to Ampal-American Israel Corporation ("Ampal") and its consolidated subsidiaries. A substantial portion of the Company's operations involves transactions with Bank Hapoalim B.M. ("Hapoalim"), the largest bank in Israel, and companies affiliated or related thereto. At December 31, 1998, Hapoalim and its wholly-owned subsidiary, Atad Hevra Lehashkaot Limited owned 24.4% of Ampal's outstanding Class A Stock.

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

(b) Consolidation

The consolidated financial statements include the accounts of Ampal and its subsidiaries. Certain prior year amounts have been reclassified to conform with the current year's presentation.

Investments in which the Company exercises significant influence, generally 20%-to 50%-owned companies ("affiliates"), are accounted for by the equity method, whereby the Company recognizes its proportionate share of such companies' net income or loss. Goodwill, representing the excess of the purchase price over the fair value of the net assets of the acquired entities, is being amortized on a straight-line basis over the period of expected benefit of ten years.

(c) Translation of Foreign Currencies

For those subsidiaries and affiliates whose functional currency is considered to be the New Israeli Shekel, assets and liabilities are translated using year-end rates of exchange. Revenues and expenses are translated at the average rates of exchange during the year. Translation differences of those foreign companies' financial statements are reflected in the cumulative translation adjustment accounts which is included in accumulated other comprehensive loss.

Assets and liabilities of foreign subsidiaries and companies accounted for by the equity method whose functional currency is the U.S. dollar are translated using year-end rates of exchange, except for property and equipment and certain investment and equity accounts which are translated at rates of exchange prevailing on the dates of acquisition. Revenues and expenses are translated at average rates of exchange during the year except for revenue and expense items relating to assets translated at historical rates which are translated on the same basis as the related asset. Translation gains and losses for these companies are reflected in the consolidated statement of income.

(d) Investments

Marketable equity securities, other than equity securities accounted for by the equity method, are reported at fair value. For those securities which are classified as trading securities, unrealized gains and losses are reported in the statement of income. Unrealized gains and losses from those securities which are classified as available-for-sale are reported as a separate component of shareholders' equity.

(e) Property and Equipment

The Company's policy is to record long-lived assets at cost, amortizing these costs over the expected useful life of the related assets. These assets are reviewed on a

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

quarterly and annual basis for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Furthermore, the assets are evaluated for continuing value and proper useful lives by comparison to expected future cash flows.

(f) Income Taxes

The Company applies the deferred method of accounting for income taxes whereby deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates to differences between financial statements carrying amounts and the tax bases of existing assets and liabilities.

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries adjusted for translation effect totalling approximately \$4.9 million, since such earnings are currently expected to be permanently reinvested outside the United States. If the earnings were not considered permanently invested, approximately \$1.7 million of deferred income taxes would have been provided. Deferred income taxes are provided on equity in earnings of affiliates, and gains on issuances of shares by affiliates, and unrealized gains on investments. Ampal's foreign subsidiaries file separate tax returns and provide for taxes accordingly.

(g) Cash Equivalents

Cash equivalents include time deposits and notes receivable with maturities at acquisition of 90 days or less.

(h) Comprehensive income (loss):

In 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130 "Reporting Comprehensive Income". This statement establishes rules for the reporting of comprehensive income and its components. Other comprehensive income (loss) consists of cumulative translation adjustments and unrealized gains (losses) on marketable securities presented net of income taxes.

Note 2 - Discontinued Operations

On December 23, 1996, the Company sold all of its equity interest in its food processing subsidiary, Pri Ha'emek (Canned and Frozen Food) 88 Ltd. ("Pri Ha'emek") to Agrifarm International Limited ("Agrifarm"), a British company. In connection with the sale, the Company recorded a loss on disposition of \$3.2 million and a tax benefit of approximately \$3.9 million, which was based on a total loss of its investment in Pri Ha'emek in the amount of \$9.7 million.

Accordingly, the results of Pri Ha'emek, were presented as discontinued operations in the Company's 1996 consolidated financial statements.

Note 3 - Acquisitions and Dispositions

(a) On January 22, 1998 (the "Closing Date"), the Company completed its purchase of a one-third interest in the assets of the shared networks operation ("SNO") of Motorola Communications Israel, Ltd. ("Motorola Israel") for a base purchase price of approximately \$110 million. The payment for the purchase price was obtained from the Company's own resources as well as from two short-term bridge loans ("Short-Term Loans"), one in the amount of \$40 million from Bank Leumi USA (of which \$8 million plus interest was repaid on February 2, 1998) and a second in the amount of \$35 million from Bank Hapoalim B.M. ("Hapoalim"). Each loan had a term of 90 days, bore interest at a rate of LIBOR plus 1/2% and was repaid in full from the proceeds of the long-term loans described below.

A new wireless communications service provider, MIRS Communication Company Ltd. ("MIRS"), initially one-third owned by the Company and two-thirds owned by Motorola Israel, coordinates and operates in Israel the digital and analog public-shared two-way radio and other services previously furnished by Motorola Israel. The digital wireless communication service is based on Motorola Israel's iDEN(TM) integrated wireless

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

communication technology, which is known as MIRS in Israel.

In March 1998, the Company transferred its interest in MIRS to a limited partnership (the "Partnership"). A wholly-owned Israeli subsidiary of Ampal (the "General Partner") is the general partner of the Partnership and owns 75.1% of the Partnership. The limited partners of the Partnership purchased their interests in the Partnership from the Partnership and include (i) an entity owned by Daniel Steinmetz and Raz Steinmetz (directors of Ampal and the controlling persons of Ampal's principal shareholder), which acquired a 9.1% interest in the Partnership for \$10 million, (ii) Hapoalim, which acquired a 7.45% interest in the Partnership for \$8.195 million, (iii) an unrelated third party (The Israel Mezzanine Fund L.P., a limited partnership whose general partner is First Israel Mezzanine Investors Ltd.), which acquired a 7.45% interest in the Partnership for \$8.195 million, and (iv) an entity owned by Dr. Yehoshua Gleitman, Ampal's Chief Executive Officer, which purchased a 0.9% interest for \$1 million. In addition to the purchase price, the limited partners also reimbursed the Company for their pro rata share of the expenses incurred by the Company in connection with the original purchase from Motorola Israel (including interest from the Closing Date until the purchase date of the limited partnership interests).

On May 4, 1998, the Partnership received two long-term loans from Hapoalim and Bank Leumi Le'Israel B.M. in the amount of \$36.4 million, each (see Note 6). The proceeds from the long-term loans were used to repay the Short-Term Loans.

The Partnership owns all of the authorized preferred shares of MIRS and Motorola Israel owns all of the authorized ordinary shares. Each share issued by MIRS is entitled to one vote.

The Company accounts for its investment in MIRS using the cost method of accounting. Under the cost method, the Company recognizes income from dividends as they are declared.

To the extent of available after-tax profits, MIRS is required to pay dividends to the Partnership equal to at least \$3.8 million for fiscal year 2000 and \$7.1 million for each fiscal year thereafter, so long as the financial stability of MIRS will not be impaired. MIRS shall endeavor to pay dividends in the following amounts: for fiscal year 1998, \$4.95 million, for fiscal year 1999, \$10.725 million and for fiscal year 2000 and thereafter, \$23.43 million (inclusive of the required payments), which all holders of an interest in MIRS shall share on a pro rata basis. To the extent that any of the above dividends are not paid by MIRS, they will accumulate. No dividends will be paid by MIRS to Motorola Israel until the Partnership has received all of its accumulated dividends. Any dividends which are paid in excess of the above amounts for a given fiscal year will similarly be paid pro rata to the Partnership and Motorola Israel based on their shares in MIRS.

Pursuant to the original purchase agreement, Motorola Israel guaranteed that the Partnership would receive from MIRS at least \$3.8 million for fiscal year 2000 and \$7.1 million for each fiscal year between 2001 and 2005 inclusive, subject to an obligation of the Partnership to repay such guarantee payments in amount equal to the excess of the amount actually received by the Partnership from MIRS with respect to any subsequent year over \$7.5 million.

Motorola Israel has agreed to make certain payments to the Partnership in the event that, prior to the thirteenth anniversary of the Closing Date, there is a dissolution, liquidation, bankruptcy, winding up, or sale of all or substantially all of the assets of MIRS and the total proceeds to the shareholders of MIRS is less than \$450 million.

The \$110 million base purchase price for the Partnership's one-third interest in MIRS was based upon the Company's valuation of the SNO and its prospects. The original purchase agreement provides that under specified circumstances indicating that there has been an increase in the enterprise value of MIRS, the Partnership must pay Motorola Israel an additional amount (the "Bonus"). The formula for the Bonus varies depending upon

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

whether an initial public offering of MIRS' shares (an "IPO") has been consummated. If an IPO is consummated prior to December 31, 2002, the Partnership must pay Motorola Israel the Bonus based on an increase in the valuation of MIRS for purposes of the IPO. In no event will such Bonus exceed \$33 million multiplied by 1.16ⁿ, where n represents the number of years (and any part thereof) between the Closing Date and the closing of the IPO.

If an IPO is not consummated prior to December 31, 2002 and if all dividends accumulated with respect to the Partnership's preferred shares up to that time have been paid, then the Partnership must pay Motorola Israel a Bonus if (A) the present value of the actual after tax net income of MIRS (as reported by MIRS' auditors in compliance with generally accepted accounting principles in Israel, excluding capital gains derived from each transaction, not in the ordinary course of business, in which the consideration for MIRS is more than \$5 million) for fiscal years 1998 through 2002, discounted at the rate of 13%, exceeds (B) \$71 million. In this case, the amount of the Bonus, if any, will equal the lesser of (i) the amount of such excess multiplied by 2.3376, or (ii) \$46 million.

On March 21, 1999, MIRS declared a dividend, the Company's share of which amounts to \$.9 million (net of minority interest).

(b) In addition to the investment in MIRS, the Company made the following investments in the high-technology field in the year ended December 31, 1998, aggregating \$7.3 million, notably; (1) a \$2.5 million investment to acquire a 9% interest in Smartlight Ltd., a developer and marketer of innovative digital film viewers for use in the diagnosis of medical images; (2) a \$2.1 million investment to acquire an additional 8.6% of XaCCT Technologies Ltd. (total equity interest - 18.4%), a developer of billing, auditing and accounting software for TCP/IP networks; (3) a \$1 million investment to acquire an additional 3.8% of PowerDsine Ltd. (total equity interest - 11.9%, after dilution), a developer, manufacturer and marketer of innovative modules and components for the telecommunications industry; (4) a \$1 million investment to acquire a 1.75% equity interest in Compugen Ltd., a developer of algorithms and models for the interpretation of biological processes; (5) a \$.4 million investment to acquire an additional 2% in its existing investee NetFormX Ltd. (formerly Imagenet Ltd., - total equity interest 21%), a developer of CANER(C) family of network design, analysis and simulation tools; and (6) \$.3 million to maintain its equity interest in its existing investee, Qronus Interactive Israel (1994) Ltd., a developer and marketer of software testing tools.

(c) In 1997, the Company made several new investments in the high-technology field aggregating \$8.9 million, notably (1) a \$1 million investment to acquire 7.3% of UNIC View Ltd., a manufacturer and marketer of a liquid screen display projector for video, large-screen television and computer projection systems and a developer of a new projector engine for home use, (2) a \$.75 million investment for 2.2% FundTech Ltd. (decreased to 1.5% in 1998), a developer of software for worldwide banking institutions to facilitate fund transfers, (3) a \$1 million investment for 3% of NKO, Inc., a developer of low-cost facsimile transmission services, (4) a \$.4 million investment for approximately 9.8% of XaCCT Technologies Ltd., a developer of billing, auditing and accounting software for TCP/IP networks which allows such networks to generate reports of network transactions and services by treating them exactly like telephone calls, (5) a \$2 million investment for 12.5% of PowerDsine, Ltd., a developer, manufacturer and marketer of innovative modules and components for the telecommunications industry, (6) a \$.5 million investment for 24.99% of Ortek Ltd., a developer and manufacturer of electro-optical devices and systems for the military and civilian markets, (7) a \$1.25 million investment to acquire approximately 12% of Shiron Satellite Communications (1996) Ltd., a developer of satellite modems which achieve high data rates, designed to answer the requirements of satellite data and voice applications such as rural telephone, video conferencing and other applications, and (8) a \$2 million investment to acquire 11% of Shellcase Ltd., an Israeli company which has developed a packaging process for computer chips.

(d) On May 8, 1997, the Company sold all of its direct holdings in Orlite Industries (1959) Ltd. ("Orlite") and a wholly-owned subsidiary which held a separate interest in

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

Orlito to Investment Company of Bank Hapoalim for an aggregate sales price of \$5.3 million. The Company recorded a gain on sale of \$.3 million with respect to this transaction.

(e) On February 27, 1997, the Company sold its 20.7% interest in Davidson-Atai Publishers Ltd. ("Davidson Atai"), a publishing company, to principals of Davidson Atai for approximately \$.1 million. The transaction yielded a nominal profit to the Company.

(f) On March 27, 1997, the Company sold its 7.9% interest in Idan Software Industries I.S.I. Ltd. ("Idan"), to Idan's principal shareholder for approximately \$.9 million and recorded a gain on sale of approximately \$.1 million with respect to this transaction.

(g) On January 31, 1997, the Company sold to the Government of Israel (the "Government") the portion of the building at 800 Second Avenue, New York, New York ("800 Second Avenue") which it occupies for \$31 million. As a result of this transaction, the Company recorded an unrealized loss of \$1.1 million (\$.6 million net of taxes) in its December 31, 1996 financial statements.

(h) In 1997 and 1996, the Company received gross proceeds in the amount of \$3.6 million and \$2 million from the sale of 119,800 and 113,624 shares of Teledata Communications Ltd. ("Teledata") and realized gains on sale of \$2.9 million and \$1.5 million (\$1.9 and \$1 million after taxes), respectively.

(i) In June 1996, the Company made a \$1.5 million indirect investment in Geotek Communications Inc., an international wireless telecommunications company. In 1997, the Company recorded a \$1.2 million loss due to the impairment in value of this investment.

(j) In September 1995, the Company invested \$1.3 million to acquire a 21.9% equity interest and three-year options to acquire an additional 4.4% equity in U.D.S. - Ultimate Distribution Systems Ltd. ("U.D.S."), an Israeli-based software company specializing in the management and optimization of a variety of logistic tasks for the distribution industry. In 1997, the Company recorded a \$1 million loss from impairment of value of this investment and U.D.S. will no longer be accounted for as an affiliate of the Company under the equity method of accounting.

Note 4 - Deposits, Notes and Loans Receivable

Deposits, notes and loans receivable earn interest at varying rates depending upon their linkage provisions. The deposits are guaranteed by Hapoalim. Deposits have maturities of up to 7 years and notes and loans receivable have maturities of up to 10 years. At December 31, 1998 and 1997, deposits, notes and loans receivable from related parties were \$26.5 million and \$36.7 million, respectively.

Note 5 - Investments in Marketable Securities

The Company classifies investments in marketable securities as trading securities and available-for-sale securities and periodically re-evaluates such classifications.

(a) Trading Securities

The cost and market values of trading securities at December 31, 1998 and 1997 are as follows:

December 31, 1998	Cost	Unrealized Gains/(Losses)	Market Value

Bonds	\$ 333	\$ (143)	\$
190			
Equity Securities	29,543	(3,446)	
26,097			

Total Trading Securities	\$29,876	\$(3,589)	
\$26,287			
=====			

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

December 31, 1997 -----	Cost	Unrealized Gains/(Losses)	Market Value

Bonds 357	\$ 479	\$ (122)	\$
Equity Securities 7,096	5,433	1,663	

Total Trading Securities 7,453	\$ 5,912	\$ 1,541	\$
=====			

In the years ended December 31, 1998, 1997 and 1996, the Company recorded \$(1.4) million, \$.9 million, and \$(.1) million of unrealized gains (losses), respectively, on trading securities in the statement of income.

During 1998, 1997 and 1996, the Company invested approximately \$30.8 million, \$9.1 million, and \$2.4 million, respectively, in marketable securities, which are classified as trading securities.

(b) Available-For-Sale Securities

At December 31, 1998, the aggregate fair value of available-for-sale securities was \$3.3 million (cost - \$.6 million). In 1997, the Company did not have any available-for-sale securities.

In the year ended December 31, 1996, the Company recorded an unrealized loss on available-for-sale securities in the statement of income of \$.5 million, as a result of the permanent impairment in value.

Note 6 - Notes and Loans Payable

Notes and loans payable consist primarily of bank borrowings either in U.S. Dollars, linked to the Consumer Price Index in Israel or in unlinked shekels with interest rates varying depending upon their linkage provision and mature through 2008.

At December 31, 1998 and 1997, notes and loans payable include a \$15 million note payable to Hapoalim, borrowed in connection with the purchase of the building located at 800 Second Avenue, New York, New York. The loan is due on May 28, 1999 and bears interest at the rate of LIBOR plus .75%, or 5.97% at December 31, 1998 (at December 31, 1997 the rate was LIBOR plus .5%, or 6.44%).

On May 4, 1998, the Company received two long-term loans from Hapoalim and Bank Leumi Le' Israel B.M. in the amount of \$36.4 million each, in connection with the purchase of the preferred shares of MIRS (see Note 3(a)). Both loans are due on March 31, 2008 and bear interest at a rate of LIBOR plus .8%. The principal payments are due as follows: 10% on March 31, 2004, 15% on March 31, 2005 and 25% on each of the following dates - March 31, 2006, 2007 and 2008. Interest will be paid annually on March 31 of each year from March 31, 2001 until and including March 31, 2008.

The weighted average interest rates on the balances of short-term borrowings at year-end are as follows: 6.58% on \$20.6 million and 6.59% on \$2.5 million in 1998 and 1997, respectively.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

Note 7 - Debentures

Debentures outstanding at December 31 consist of:

	1998	1997

Ampal:		
Fifteen Year 11% Discount Debenture, maturing 2003 (in 1997, various series with interest rates ranging from 10%-12%, maturing 1999-2003)	\$18,075	
\$20,306		
Ampal Development (Israel) Ltd.:		
Various series with interest rates ranging from 6.2%-7.5%, linked to the Consumer Price Index in Israel, maturing 1999-2005, secured by assets of \$22 million	21,208	
29,211		

	39,283	
49,517		
Less: Unamortized discounts	6,466	
7,671		

Total	\$32,817	
\$41,846		
=====		

Certain debentures are presentable for early redemption. If presented for early redemption, maturities (including required obligations) for the five years ending December 31 would be:

1999.....	
\$16,437*	
2000.....	6,203
2001.....	1,852
2002.....	1,851
2003.....	1,851
Thereafter.....	3,792

* If no debentures are presented for early redemption, scheduled maturities will amount to \$5,569.

Note 8 - Shareholders' Equity

Capital Stock

The 4% and 6-1/2% preferred shares are convertible into 5 and 3 shares of Class A Stock, respectively. At December 31, 1998, a total of 8,710,277 shares of Class A Stock is reserved for issuance upon the conversion of the Preferred Stock and the exercise of 4.5 million warrants,

473,250 options and 100,000 rights. The warrants expired on January 31, 1999.

The 4% and 6-1/2% Preferred Stock are preferred as to dividends on a cumulative basis. Additional dividends out of available retained earnings, if declared, are payable on an annual non-cumulative basis as a percentage of par value as follows:

(i) up to 4% on Class A Stock, then

(ii) on 4% Preferred Stock and Class A Stock ratably.

Preferred shares are non-voting unless dividends are in arrears for three successive years. At December 31, 1998, there are no dividend arrearages.

Retained Earnings

At December 31, 1998, retained earnings include \$43 million for affiliates accounted for by the equity method, of which \$11.2 million and an additional \$37.3 million from subsidiaries is not available for the payment of dividends. In most cases this results from Israeli requirements that dividends may only be paid on the basis of shekel-denominated and not dollar-denominated retained earnings.

Note 9 - Stock Options

In September 1994, the Company's shareholders approved a Stock Option Plan (the "1994 Plan") permitting the granting of options to purchase up to an aggregate of 200,000 shares of Class A Stock to employees, officers and directors of the Company and certain subsidiaries of the Company. The options granted under the 1994 Plan may be either incentive stock options, at an exercise price of not less than (i) the fair market value of the underlying shares on the date of grant, or (ii) 110% of the fair market value on the date of grant if the grantee owns stock representing more than 10% of the voting

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

power of Ampal's capital stock or value of all classes of stock of Ampal, or non-incentive stock options, at an exercise price that is fixed by the Board of Directors (the "Board") or the Stock Option Committee (the "Committee") at the time the options are granted. The options are exercisable at the discretion of the Board or the Committee, with a non-exercisable period of at least two years from the date of grant for all options granted except those granted to non-employee directors, which may be exercised immediately upon grant. The terms of options granted under the 1994 Plan may not exceed five years. As of December 31, 1998, there were 35,750 options outstanding under the 1994 Plan, presently exercisable at \$10.91 per share.

In March 1998, the Board approved a Long-Term Incentive Plan (the "1998 Plan") permitting the granting of options to all employees, officers, directors and consultants of the Company and its subsidiaries to purchase up to an aggregate of 400,000 shares of Class A Stock. The options granted may be either incentive stock options, at an exercise price to be determined by the Committee but not less than 100% of the fair market value of the underlying options on the date of grant, or non-incentive stock options, at an exercise price to be determined by the Committee. The Committee may also grant, at its discretion, "restricted stock," "dividend equivalent awards," which entitle the recipient to receive dividends in the form of Class A Stock, cash or a combination of both and "stock appreciation rights," which permit the recipient to receive an amount in the form of Class A Stock, cash or a combination of both, equal to the number of shares of Class A Stock with respect to which the rights are exercised multiplied by the excess of the fair market value of the Class A Stock on the exercise date over the exercise price. The 1998 Plan remains in effect for a period of ten years.

Also in March 1998, the Company entered into a Stock Option and Stock Purchase Agreement ("the Agreement") with the Company's Chief Executive Officer. Pursuant to the Agreement, the Chief Executive Officer was granted options to purchase up to 1,000,000 shares of the Company's Class A Stock. The Company also granted, based on certain terms and conditions, the rights to purchase ("Share Purchase Rights"), at a discount, up to 200,000 shares of the Company's Class A Stock.

The Company accounts for all plans under APB Opinion No. 25, under which compensation cost has been recognized for the year-ended December 31, 1998 for the 20% discount in connection with the Share Purchase Rights. Had compensation cost for these options been determined in accordance with SFAS No. 123, the Company's net income and EPS would have been reduced as follows:

(In thousands, except per share data)		Year Ended December 31,		
		1998	1997	1996
Net income (loss):	As reported.....	\$2,175	\$ 14,183	\$(10,252)
	Pro forma.....	1,201	--	--
Basic EPS:	As reported.....	\$.08	\$.58	\$(.45)
	Pro forma.....	.04	--	--
Diluted EPS:	As reported.....	\$.07	\$.50	\$(.45)
	Pro forma.....	.03	--	--

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for the options: (1) expected life of options of 7.95 years; (2) dividend yield of 0%; (3) expected volatility of 40%; and (4) risk-free interest rate 5.72%.

Because SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

Transactions under both Stock Option Plans and Agreement during 1998 were as follows:

(In thousands, except per share data)

	Year Ended December 31, 1998			
	Share Purchase Rights	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	--	--	109	\$10.91
Granted	200	(1)	1,000	\$ 8.75
Exercised	(100)	\$ 2.80	--	--
Terminated	--	--	(73)	\$10.91
Outstanding at end of year	100	(1)	1,036	\$ 8.82
Exercisable at end of year	--	--	473	
Weighted average fair value of options granted				\$ 2.23

(1) Pursuant to the Stock Option and Purchase Agreement, exercise price to be determined based on 80% of the market price of the shares purchased on the date of exercise.

The 1,036,000 options outstanding as of December 31, 1998 have exercise prices between \$6.75 and \$10.91 with a weighted average exercise price of \$8.82 and a weighted average remaining contractual life of 7.2 years. Of these 1,036,000 options, 473,000 are exercisable; their weighted average exercise price is \$8.91.

Note 10 - Earnings Per Class A Share

Effective December 31, 1997, the Company adopted SFAS No. 128, "Earnings Per Share." In accordance with SFAS No. 128, net earnings per Class A share ("basic EPS") were computed by dividing net earnings by the weighted average number of Class A shares outstanding and excluded any potential dilution. Net earnings per Class A share amounts, assuming dilution ("diluted EPS") were computed by reflecting potential dilution from the conversion of the 4% and 6-1/2% Preferred Stocks into Class A Stock (in 1996 these securities were excluded as they were antidilutive). SFAS No. 128 requires the presentation of both basic EPS and diluted EPS on the face of the income statement.

A reconciliation between the basic and diluted EPS computations for net earnings is as follows:

(In thousands, except per share data)

Year Ended December 31, 1998

Share	Income	Shares	Per Amounts

Basic EPS:			
Net income attributable to Class A Stock	\$1,840(1)	23,911	\$.08
	=====		=====
Effect of Dilutive Securities:			
Conversion of 4% and 6-1/2% Preferred Stocks		3,713	

Diluted EPS:			
Net income attributable to Class A Stock	\$1,841(2)	27,624	\$.07
	=====	=====	=====

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

Year Ended December 31, 1997

----- Share	Income	Shares	Per Amounts

Basic EPS:			
Net income attributable to Class A Stock	\$13,832(1)	23,742	\$.58
	=====		=====
Effect of Dilutive Securities:			
Conversion of 4% and 6-1/2% Preferred Stocks		3,873	

Diluted EPS:			
Net income attributable to Class A Stock	\$13,925(2)	27,615	\$.50
	=====	=====	=====
	Year Ended December 31, 1996		

----- Share	Income	Shares	Per Amounts

Basic and Diluted EPS:			
Loss from continuing operations	\$(7,724)(1)	23,549(3)	\$
(.33)			
Loss from discontinued operations	(2,892)		
(.12)			
Net income attributable to Class A Stock	\$(10,616)		\$
(.45)	=====		=====

(1) After deduction of Preferred Stock dividends of \$335, \$351 and \$364, respectively.

(2) Includes decrease in net income of \$334 and \$258, respectively, due to dilution in equity in earnings of affiliate.

(3) Includes 2,769 shares of Common Stock.

Note 11 - Income Taxes

The components of current and deferred income tax expense (benefit) are:
1996

	1998	1997	

Current:			
State and local	\$ 66	\$ 66	\$ 65
Federal	280	2,945	912
Foreign	1,136	2,859	999
Deferred:			
State and local	(132)	(95)	
(214)			
Federal	(3,137)	716	
(60)			
Foreign	(1,734)	(1,180)	197
	-----	-----	-----
Total	\$(3,521)	\$ 5,311	\$ 1,899
	=====	=====	=====

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

Equity in earnings of affiliates	(3,477)	1,218	404
Net operating loss carryforwards	(985)	(204)	
(577)			
Unrealized (losses) gains	(1,230)	(516)	336
Restructuring charge	245	(455)	--
Other	444	(602)	
(240)			
	-----	-----	-----
Total	\$(5,003)	\$ (559)	\$
(77)	=====	=====	=====

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

1996	1998	1997	

The domestic and foreign components of (loss) income from continuing operations before income taxes are:			
Domestic	\$ (5,806)	\$ (363)	\$
(1,894)			
Foreign	4,460	19,857	
(3,567)			
	-----	-----	-----
Total	\$ (1,346)	\$ 19,494	\$
(5,461)			
	=====	=====	=====

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

Federal income tax at 35%, 35% and 34%	\$ (471)	\$ 6,823	\$
(1,857)			
Taxes on foreign income (below) in excess of U.S. rate, net of tax credits	(2,856)	(1,366)	4,040
Other	(194)	(146)	
(284)			
	-----	-----	-----
Total effective tax: 262%, 27% and (35%)	\$ (3,521)	\$ 5,311	\$ 1,899
	=====	=====	=====

Other assets include approximately \$5.1 million (\$3.6 million in 1997) of deferred tax assets which primarily represent the tax benefit of the temporary differences between the carrying values of the assets in the financial statements and their income tax bases. Accounts and income taxes payable and accrued expenses include approximately \$20.9 million (\$22.7 million in 1997) of deferred tax liability which primarily consists of tax liability provided on undistributed earnings of affiliates of approximately \$20.2 million (\$23.3 million in 1997).

Note 12 - Investments in Affiliates and Others

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

1996	1998	1997	

Am-Hal Ltd.	50%	50%	50%
Bay Heart Limited (a)	37	37	37
Carmel Containers Systems Limited	20.7	20.7	
20.7			
Coral World International Limited (b).....	50	50	50
Epsilon Investment House Ltd.	20	20	20
Hod Hasharon Sport Center (1992) Limited Partnership	50	50	50
Granite Hacarmel Investments Limited ("Granite")	19.1	21.5	
21.5			
M.D.F. Industries Ltd.(c)	--	--	--
Moriah Hotels Ltd.	46	46	46
Ophir Holdings Ltd.(d)	42.5	42.5	
42.5			
Orlite Industries (1959) Ltd. ("Orlite") (See Note 3(d))	--	--	
25.3			
Ortek Limited (24.99% is also owned by a related party)(e)	--	24.99	--
Renaissance Investment Company Ltd.	20	20	20
Trinet Investment in High-Tech Ltd.	37.5	37.5	
37.5			
Trinet Venture Capital Ltd.(f)	50	50	50
U.D.S. - Ultimate Distribution Systems Ltd. (See Note 3(j))	--	--	
21.9			

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

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

	1998	1997	1996

Revenues	\$672,816	\$776,034	
\$788,169			
Gross profit	184,483	204,992	
184,533			
Net income	31,587	53,083	
36,346			
Property and equipment	\$348,226	\$332,514	
\$356,901			
Other assets	508,501	500,670	
503,255			

Total assets	\$856,727	\$833,184	
\$860,156			
=====			
Total liabilities, including bank borrowings ..	\$602,807	\$516,627	
\$546,457			
=====			

(a) At December 31, 1998 and 1997, the Company had a note receivable from Bay Heart Limited in the amount of \$.4 million and \$1 million, respectively, and recorded interest income in the amount of \$44 and \$339, respectively, for the above years.

(b) On September 27, 1996, a wholly-owned subsidiary of Coral World International Limited ("CWI"), the Company's 50%-owned affiliate, sold its marine park in Nassau (Bahamas) to an unrelated party for \$3.75 million and CWI recorded a loss on sale of approximately \$5 million (the Company's share is \$2.5 million, \$1.7 million net of taxes). In addition, in May 1996, CWI's management made a decision to sell its marine park in St. Thomas (U.S. Virgin Islands), and CWI recorded a loss of approximately \$2 million (the Company's share is \$1 million, \$.7 million net of taxes) to adjust the carrying value of its investment to net realizable value. In April 1997, CWI sold this investment to an unrelated party for \$.8 million and recorded a gain of \$.1 million.

At December 31, 1998 and 1997, the Company had a note receivable from CWI in the amount of \$.1 million and \$.3 million and recorded interest income in the amount of \$31 and \$49, respectively, for the above years.

(c) M.D.F. Industries Ltd. ("M.D.F."), the Company's 50%-owned affiliate, which established a plant in Israel for the production of medium density fiber boards, and which completed its running-in period on June 30, 1996, incurred significant losses in 1996. The losses were primarily attributable to the excess of cost of sales per production unit over the selling price. In view of the substantial losses incurred by M.D.F. and the continuing depressed prices with respect to its products, the Company believed that further substantial losses would be incurred by M.D.F. Consequently, because of the uncertainty with respect to M.D.F.'s future operations, the Company recorded a loss from impairment of this investment in December 1996 for its full remaining investment in and loans to M.D.F. in the amount of \$8.8 million. This loss, in addition to the \$1.3 million loss previously recorded by the Company in 1996 with respect to M.D.F., resulted in a total loss attributable to the operations of M.D.F. in the amount of \$8.6 million, net of tax benefits. M.D.F. is no longer accounted for as an affiliate of the Company under the equity method of accounting, however, the Company continues to be contingently liable with respect to \$5 million of guarantees given by the Company with respect to M.D.F.'s bank obligations.

(d) At December 31, 1996, the Company had a note receivable from Ophir in the amount of \$4.5 million which matured in 1997 and recorded interest income in the amount of \$56 in 1997 and \$178 in 1996. Also at December 31, 1996, the Company had a non-interest bearing note payable to Ophir in the amount of \$1.2 million, which matured on January 1, 1997.

(e) At December 31, 1998, the Company recorded a loss from impairment of its investment in Ortek Limited ("Ortek") in the amount of \$.3

million (\$.2 million net of taxes). The Company no longer accounts for Ortek under the equity method of accounting. However, the Company continues to be contingently liable for \$.6 million of guarantees given by the Company to Ortek.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

(f) At December 31, 1998 and 1997, the Company had a non-interest bearing note receivable from Trinet Venture Capital Ltd. in the amount of \$2.5 million and \$3.6 million, respectively.

The carrying value of the Company's investments in shares of its publicly traded affiliates and others (including investments held through Ophir Holdings Ltd.) at December 31, 1998, amounted to \$38.1 million and had a market value of \$51.2 million, based upon quoted market prices of shares traded on the American Stock Exchange, NASDAQ National Market and the Tel Aviv Stock Exchange. There is no assurance that any of these investments could be realized at the quoted market price.

Note 13 - Segment Information

The Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," at December 31, 1998. SFAS 131 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.

YEAR ENDED DECEMBER 31,	1998	1997	1996
Revenues:			
Finance	\$ 7,341	\$ 16,738	\$ 15,154
Real estate rental	7,375	8,080	11,405
Mattress manufacturing	6,758	12,129	10,892
Leisure-time	1,652	1,667	1,671
Intercompany adjustments	(503)	(1,204)	(1,095)
	-----	-----	-----
Total	\$ 22,623	\$ 37,410	\$ 38,027
	=====	=====	=====
Equity in Earnings (Losses) of Affiliates:			
Finance	\$ 186(b)	\$ 15,228(b)	\$ 2,278(b)
Real estate rental	510(b)	(882)(b)	
(3,362)(b)			
Mattress manufacturing	--	--	--
Leisure-time	775(a)	472(a)	
(2,336)(a)			
	-----	-----	-----
Total	\$ 1,471	\$ 14,818	\$ (3,420)
	=====	=====	=====
Interest Income:			
Finance	\$ 5,768	\$ 10,183	\$ 12,948
Real estate rental	61	908	36
Mattress manufacturing	--	--	--
Leisure-time	--	--	--
Intercompany adjustments	(503)	(1,360)	(1,110)
	-----	-----	-----
Total	\$ 5,326	\$ 9,731	\$ 11,874
	=====	=====	=====
Interest Expense:			
Finance	\$ 10,500	\$ 7,314	\$ 10,980
Real estate rental	1,483	2,375	3,110
Mattress manufacturing	314	453	346
Leisure-time	523	481	755
Intercompany adjustments	(503)	(1,360)	(1,110)
	-----	-----	-----
Total	\$ 12,317	\$ 9,263	\$ 14,081
	=====	=====	=====
Pretax Operating (Loss) Income:			
Finance	\$ (9,991)	\$ (1,199)	\$ (12,076)
Real estate rental	2,341	2,433	1,855(c)
Mattress manufacturing	(2,015)	(264)	(1,516)
Leisure-time	(354)	(400)	(608)
	-----	-----	-----
Total	\$ (10,019)	\$ 570	\$ (12,345)
	=====	=====	=====

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

Income Tax (Benefit) Expense:			
Finance	\$ (2,904)	\$ 5,542	\$ 2,448
Real estate rental	(319)	(229)	(524)
Mattress manufacturing	--	--	(25)
Leisure-time	(298)	(2)	--
	-----	-----	-----
Total	\$ (3,521)	\$ 5,311	\$ 1,899
	=====	=====	=====
Total Assets:			
Finance	\$ 292,333	\$ 227,356	\$ 230,318
Real estate rental	35,013	48,869	62,745
Mattress manufacturing	4,769	8,809	8,520
Leisure-time	2,614	2,831	3,262
Intercompany adjustments	(5,483)	(25,591)	(21,294)
	-----	-----	-----
Total	\$ 329,246	\$ 262,274	\$ 283,551
	=====	=====	=====
Investments in Affiliates:			
Finance	\$ --	\$ --	\$ --
Real estate rental	15,697(b)	13,724(b)	
8,902(b)			
Mattress manufacturing	--	--	--
Leisure-time	33,943(a)	34,638(a)	
34,489(a)			
	-----	-----	-----
Total	\$ 49,640	\$ 48,362	\$ 43,391
	=====	=====	=====
Capital Expenditures:			
Finance	\$ 19	\$ 190	\$ 48
Real estate rental	2,895	1,035	2,475
Mattress manufacturing	276	893	262
Leisure-time	38	98	70
	-----	-----	-----
Total	\$ 3,228	\$ 2,216	\$ 2,855
	=====	=====	=====
Depreciation and Amortization:			
Finance	\$ 1,346	\$ 1,675	\$ 3,476
Real estate rental	848	756	1,291
Mattress manufacturing	332	620	581
Leisure-time	215	262	277
	-----	-----	-----
Total	\$ 2,741	\$ 3,313	\$ 5,625
	=====	=====	=====

Corporate office expense is principally applicable to the financing operation and has been charged to that segment above. Revenues and pretax operating income above exclude equity in earnings of affiliates and minority interests. Total assets exclude assets from discontinued operations.

(a) Operations in Australia, Bahamas (1997 and 1996, only), Israel, U.S. Virgin Islands (1997 and 1996, only) and the United States (see Note 11).

(b) Operations in Israel.

(c) Includes loss and gain on sale of real estate rental property (see Note 3).

The real estate rental segment consists of rental property owned in Israel and the United States leased to related and unrelated parties. The mattress manufacturing segment consists of Paradise Industries, Ltd., which is a leading manufacturer and distributor of mattresses and fold-out beds in Israel, whose customer base consists of independent stores as well as hotel chains. The leisure-time segment consists primarily of Moriah Hotels Ltd. (hotel chain in Israel), Coral World International Limited (marine parks located around the world) and Country Club Kfar Saba (the Company's 51%-owned subsidiary located in Israel).

Note 14 - Disclosures about Fair Value of Financial Instruments

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

(a) Cash and Cash Equivalents

For short-term investments, the carrying amount is a reasonable estimate of fair value.

(b) Deposits, Notes and Loans Receivable

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

(c) Investments

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

(d) Commitments

Due to the relatively short term of commitments discussed in Note 15, their contract value is considered to be their fair value.

(e) Deposits, Notes and Loans Payable and Debentures

The fair value of notes and loans payable, deposits payable and debentures outstanding is estimated by discounting the future cash flows using the current rates offered by lenders for similar borrowings with similar credit ratings and for the same remaining maturities.

	1998		1997	
-----	Carrying Amount	Fair Value	Carrying Amount	Fair Value
-----	-----	-----	-----	-----
Financial assets:				
Cash and cash equivalents	\$ 12,047	\$ 12,047	\$ 45,457	\$
45,457				
Deposits, notes and loans receivable	27,816	26,535	46,176	
44,480				
Investments	29,553	29,553	7,453	
7,453				

97,390	\$ 69,416	\$ 68,135	\$ 99,086	\$
=====	=====	=====	=====	
Financial liabilities:				
Notes and loans payable	\$ 98,193	\$102,141	\$ 23,207	\$
22,317				
Debentures outstanding	32,817	33,556	41,846	
43,157				

65,474	\$131,010	\$135,697	\$ 65,053	\$
=====	=====	=====	=====	

Note 15- Commitments and Contingencies

(a) The combined minimum annual lease payments on Paradise, Ampal's corporate offices, and Country Club Kfar Saba, without giving effect to future escalations, are \$.8 million for the years 1999-2003, and \$8 million in the aggregate, thereafter, totalling \$12 million. The leases expire in 2006, 2009 and 2038, respectively.

(b) For the years 1999 through 2003, the combined minimum lease receipts to be received by the Company from rental properties are approximately \$5.6 million in 1999 (\$2.4 million from related parties); \$5.2 million in 2000 (\$2 million from related parties); \$3.3 million in 2001 (\$.3 million from related parties); \$3.2 million in 2002 (\$.1 million from related parties); \$3 million in 2003 (all from non-related parties); and \$16.3 million in the aggregate, thereafter (all from non-related parties), totalling \$36.7 million (\$4.8 million from related parties).

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

(c) The Company has issued guarantees on bank loans to its investees and subsidiaries totalling \$12.2 million (includes \$5 million of guarantees with respect to M.D.F.).

The Company's commitments to its investees amounted to \$13 million.

(d) Sonol, a subsidiary of the Company's investee, Granite, and "Delek" the Israel Fuel Corporation Ltd. ("Delek") jointly own the rights to the "Dalkan 2000," a computerized system for marketing fuel products (primarily to automobile fleets). On January 26, 1997, the Controller of Restrictive Trade Practices ruled that the joint marketing arrangement of the "Dalkan 2000" system by Sonol and Delek is a restrictive trade agreement. As a result of the position taken by the Controller, both Sonol and Delek agreed to divide the "Dalkan 2000" system between themselves so that each company will operate an independent system in a manner that will enable customers, in accordance with their own preference, to enter into an agreement with either of the companies. The separation agreement was implemented during 1998.

A private legislative proposal dealing with the shortening of the terms of exclusive agreements entered into between the fuel marketing companies and filling station owners and operators has passed its first reading in the Knesset, the Israeli parliament. The Economics Committee of the current Knesset has decided that the rule of "Continuity" will be in effect regarding this proposal and to initially require the legislation of rules regarding future commitments of the fuel companies with filling station owners and only, thereafter, to deal with the issue of exclusive agreements entered into in the past. Subsequently, the Law of the Fuel Economy (Promotion of Competition Correction) 1998, was enacted in July, 1998. The Law deals with future commitments by the fuel companies and empowers the Minister of National Infrastructures to determine rules after consulting with the Controller of Restrictive Trade Agreements and after having received approval by the Economics Committee of the Knesset, regarding automatic filling systems (Dalkanim and Pazomatim) and their operation. These rules will apply to all the fuel companies.

A draft proposal of legislation by the Ministry of Energy and Infrastructure regarding the term of exclusive contracts between the fuel marketing companies and station owners has been forwarded to government ministries, the President of the Supreme Court and law faculties for their initial comments.

As part of the Ministry of Energy's policy to separate the holding of Emergency Inventories of crude oil and product inventories from the companies' operating inventories, the Fuel Authority has designated several tanks at various storage locations for the holding of Emergency Inventories, effective as of July 1, 1998. Furthermore, a tender offer has been published to determine the party which will hold the Emergency Inventories, which have to date been held by the major fuel marketing companies. The final date for the tender has been postponed.

At this time, it is too early to estimate the effects of the said developments on the overall Israeli fuel market in general, and on Granite in particular.

(e) On July 27, 1998, a Tel Aviv District Court judge ruled in favor of Yakhin Hakal Ltd., the manager and co-owner of Ampal's 50%-owned affiliates, Etz Vanir Ltd. ("Etz Vanir") and Yakhin Mataim Ltd. ("Yakhin Mataim"). The judge's decision allows Etz Vanir and Yakhin Mataim to redeem debentures owned by Ampal for approximately \$.8 million and to require Ampal to surrender all of its shares of Etz Vanir and Yakhin Mataim for their par value, which is nominal. After the redemption and surrender, Ampal will no longer have any interest in Etz Vanir or Yakhin Mataim.

Etz Vanir and Yakhin Mataim cultivate in the aggregate approximately 1,200 acres of citrus groves.

Etz Vanir and Yakhin Mataim have not reported their financial results to Ampal since 1990 and, therefore, their financial results have not been included in Ampal's financial statements. The carrying value of Ampal's investment in Etz Vanir and Yakhin Mataim, as of December 31, 1998, is approximately \$.8 million.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS)

At the request of Ampal's attorneys, the Tel Aviv District Court has issued a stay of performance of the judgment until the High Court of Appeal issues a final judgment. On October 15, 1998, Ampal filed an appeal with the High Court of Appeal in Jerusalem. It is not expected that a final judgment will be rendered before the end of 1999.

(f) Legal claims arising in the normal course of business have been filed against subsidiaries and affiliates of the Company. In the opinion of the companies' managements, based on the opinions of legal counsel, the provisions made are sufficient.

Note 16 - Restructuring Charge

During 1997, in connection with management's plan to reorganize operations and reduce costs, the Company recorded a restructuring charge of \$1.3 million (\$0.7 million was recorded in the quarter ended December 31, 1997). This restructuring resulted in the elimination of certain corporate positions and was completed in 1998, and primarily related to severance and other employee-related costs. At December 31, 1998, \$0.6 million of the restructuring charge remained unutilized and was transferred to severance and other employee-related liability.

Note 17 - Subsequent Events

On January 25, 1999, the Company accepted a tender from Koor Tourism Enterprises (which tendered, jointly with the Sheraton International chain) for the acquisition of the Radisson Moriah Hotels chain ("Moriah"), the Company's 46%-owned affiliate, for \$37.5 million. This transaction was approved by Israel's Anti-Trust Commissioner. If the aforementioned transaction is consummated, the Company will record a gain on sale in the amount of approximately \$12.4 million (\$8 million, net of income taxes). In the event that Moriah distributes dividends prior to the completion of the sale, the sales price will be adjusted by the amount of the dividends received.

Hapoalim approached Ampal to commence negotiations regarding the potential purchase by Ampal and its subsidiaries of Hapoalim's entire holdings in Ampal. In connection with the proposed transaction, Ampal's Related Party Transactions Committee approved on March 22, 1999 to continue the negotiations with Hapoalim to acquire the entire Hapoalim holdings in Ampal in exchange for consideration consisting of cash and certain real estate properties currently leased to Hapoalim.

SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in thousands, except per share data)					
Year Ended December 31, 1998					
Revenues	\$ 9,833	\$ 7,232	\$ 4,792	\$ 8,094	\$ 29,951
Net interest (expense)	(1,246)	(1,448)	(1,672)	(2,625)	(6,991)
Manufacturing operations	(86)	(856)	(410)	(372)	(1,724)
Net income (loss)	2,006	(919)	(1,902)	2,990	2,175
Basic EPS:					
Earnings (loss) per Class A share .....	.08	(.03)	(.08)	.11(2)	.08
Diluted EPS:					
Earnings (loss) per Class A share .....	.07	(.04)	(.07)	.11	.07
Year Ended December 31, 1997					
Revenues	\$ 12,470	\$ 18,347(1)	\$ 15,896	\$ 9,401	\$ 56,114
Net interest income (expense)	215	281	(13)	(15)	468
Manufacturing operations	(9)	(440)	(330)	337	(442)
Net income	2,521	4,769	4,608	2,285	14,183
Basic EPS:					
Earnings per Class A share .....	.11	.20	.19	.08(2)	.58
Diluted EPS:					
Earnings per Class A share .....	.09	.17	.16	.08	.50

(1) Restated to reclassify the loss from impairment of investment.

(2) After deduction of preferred stock dividends of \$335 and \$351, respectively.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

MANAGEMENT

The following table sets forth certain information regarding Ampal's directors and executive officers:

Name	Position
-----	-----
Daniel Steinmetz(1).....	Chairman of the Board of Directors and Director
Raz Steinmetz(1).....	Chairman of the Executive Committee and Director
Yehoshua Gleitman(1).....	Chief Executive Officer
Shlomo Meichor*.....	Vice President-Finance and Treasurer
Alla Kanter.....	Vice President-Accounting and Controller
Eli S. Goldberg.....	Vice President-Legal and Secretary
Michael Arnon(2)(3)(4).....	Director
Benzion Benbassat.....	Director
Yaacov Elinav(1).....	Director
Kenneth L. Henderson(2)(3)(4)(5).....	Director
Hillel Peled(2)(3)(4).....	Director
Shimon Ravid.....	Director

* Mr. Meichor assumed the positions of Vice President-Finance and Treasurer of Ampal effective April 1, 1998.

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

(1) Member of the Executive Committee of the Board which meets as necessary between regularly scheduled Board meetings and, consistent with certain statutory limitations, exercises all the authority of the Board. Mr. R. Steinmetz is the Chairman of the Executive Committee. Dr. Gleitman is a member of the Executive Committee ex officio.

(2) Member of the Audit Committee of the Board which reviews functions of the outside auditors, auditors' fees and related matters. Mr. Arnon is the Chairman of the Audit Committee.

(3) Member of the Related Party Transactions Committee of the Board which reviews and passes upon the fairness of business transactions between Ampal and related parties. Mr. Peled is the Chairman of the Related Party Transactions Committee.

(4) Member of the Stock Option Committee of the Board which administers Ampal's 1993 Stock Option Plan and other grants of options. For a description of Ampal's 1993 Stock Option Plan, see "Executive Compensation - Stock Option Plan." Mr. Henderson is the Chairman of the Stock Option Committee.

(5) Mr. Henderson was a member of the Board and the indicated Committees from January 1, 1998 until he resigned from the Board in May, 1998. He was reappointed to the Board (and the indicated Committees) on December 9, 1998.

In 1998, the Board of Directors met four times and did not act by written consent; the Executive Committee met twice and acted by written consent three times; the Audit Committee met twice and did not act by written consent; the Related Party Transactions Committee met twice and acted by written consent once; and the Stock Option Committee met twice and did not act by written consent. Ampal does not have a nominating committee or compensation committee. All directors attended more than 75% of the aggregate of (1) the total number of Board of Directors meetings held during the period in 1998 for which such individual was a director and (2) the total number of meetings held by all committees of the Board on which such individual served in 1998 (during the period of such service).

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

Daniel Steinmetz, 61, has managed family diamond trading businesses in Israel for more than the past five years. Mr. Steinmetz is the father of Raz Steinmetz.

Raz Steinmetz, 35, has managed various investments for his family, including real estate, financial investments and others, since September 1994. From September 1993 through September 1994, he worked as a trainee at Republic National Bank of New York. From September 1991 through July 1993, he attended the University of Pennsylvania, Wharton Business School, where he received a Masters Degree in Business Administration. He became a director of Ampal in June 1996 and Chairman of the Executive Committee in December 1996. Mr. Steinmetz is the son of Daniel Steinmetz.

Yehoshua Gleitman, 49, has been Chief Executive Officer of Ampal since May 1997 and Managing Director of Ampal (Israel), head of Ampal's Israeli operations, since April 1, 1997. From August 1996 until February 1997, he was a Director General of the Israeli Ministry of Industry and Trade. He was the Chief Scientist at the Ministry of Industry and Trade from January 1993 until February 1997. Prior to his tenure with the Ministry of Industry and Trade, Mr. Gleitman was Director General of AIMS Limited, a trading company.

Shlomo Meichor, 41, assumed the duties of Vice President-Finance and Treasurer of Ampal on April 1, 1998. For more than the past five years, Mr. Meichor was the Finance and Operations Manager of Digital Semi-Conductors Israel, a semi-conductor subsidiary of Digital Equipment Corporation.

Alla Kanter, 41, has been Vice President-Accounting of Ampal since September 1995 and Controller of Ampal since August 1990.

Eli S. Goldberg, 44, has been Vice President-Legal and Secretary of Ampal since November 1998. From September 1996 until November 1998, he was an associate at Lowenstein, Sandler P.C. From November 1990 until July 1996, he was employed as Special Assistant to the General Counsel of the Market Transition Facility of New Jersey.

Michael Arnon, 74, was Chairman of the Board of Directors of Ampal from November 1990 to July 1994. From July 1986 until November 1990, he was President and Chief Executive Officer of Ampal. He became a director of Ampal in 1986.

Benzion Benbassat, 61, has been the President and Chief Executive Officer of D.R.B. Investments Ltd., an investment company, controlled by Daniel Steinmetz and Raz Steinmetz, directors of Ampal and the controlling persons of Ampal's principal shareholder for more than the past five years.

Yaacov Elinav, 54, has been a Senior Deputy Managing Director of Hapoalim since August 1992. From October 1991 to August 1992, he was a Deputy Managing Director of Hapoalim. From October 1988 to October 1991, he was head of the Corporate Division of Hapoalim. He became a director of Ampal in 1992.

Kenneth L. Henderson, 44, is an attorney and has been a partner at Robinson Silverman Pearce Aronsohn & Berman LLP ("Robinson") since 1987. Robinson provided legal services to Ampal during 1997.

Hillel Peled, 51, has been President of Inveco International, Inc., a private investment company, since January 1990. From January 1982 to June 1986, he served as Vice President-Finance and Treasurer of Ampal. He became a director of Ampal in June 1996.

Shimon Ravid, 62, has been a Joint Managing Director of Hapoalim since February 1994. From October 1989 until February 1994, he was a Senior Deputy Managing Director of Hapoalim. He became a director of Ampal in 1990.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended requires Ampal's officers and directors, and persons who own more than 10% of a registered class of Ampal's equity securities, to file reports of ownership and changes in ownership with the SEC and the American Stock Exchange. These persons are required by regulation of the SEC to furnish Ampal with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 5 were required for those persons, Ampal believes that during 1998 Ampal's officers, directors and greater than 10% beneficial owners complied with all applicable Section 16(a) filing requirements.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The table below presents information regarding remuneration paid or accrued for services to Ampal and its subsidiaries by the executive officers named below during the three fiscal years ended December 31, 1998, 1997, and 1996.

Name and Principal Position	Annual Compensation			
	Year	Salary	Bonus	Other Annual Compensation
Yehoshua Gleitman(1) (Chief Executive Officer)	1998	\$247,060		\$23,118(2)
	1997	179,756		23,843(2)
Raz Steinmetz(5) (Chairman of the Executive Committee)	1998	144,002		7,417(2)
	1997	100,342		5,599(2)
Shlomo Meichor(8) (Vice President-Finance and Treasurer)	1998	122,795		9,735(2)
Alla Kanter(10) (Vice President-Accounting and Controller)	1998	107,310	9,000	14,362(11)
	1997	82,525		9,229(12)
	1996	82,400		9,366(13)
Lawrence Lefkowitz(14) (President)	1998	159,732		6,739(2)
	1997	221,324		8,720(2)
	1996	220,851	16,335	8,123(2)
Miri Lent Sharir(18) (Assistant Vice President-Israel Operations)	1998	159,578		4,695(2)
	1997	132,418	29,880	29,842(20)
	1996	120,272		27,363(21)

(1) Dr. Gleitman was appointed Chief Executive Officer of Ampal on May 28, 1997. Effective April 1, 1997, he was named Managing Director of Ampal (Israel). Dr. Gleitman is employed by Ampal pursuant to an employment agreement dated May 28, 1997. His salary is \$247,060 (payable in Shekels) per annum, (plus benefits and the use of a company car), adjusted annually in accordance with changes in the United States consumer price index. Dr. Gleitman is paid by Ampal (Israel). Either party may terminate this agreement upon three months written notice for each year of Dr. Gleitman's employment up to a maximum of nine months. On November 18, 1998, Dr. Gleitman exercised his rights to purchase 100,000 of Ampal's Class A shares at 80% of its value based on the 30 day average sales price on that date. In connection with this purchase, on December 28, 1998, Dr. Gleitman received a loan from the Company in the amount of \$210,000, at a variable interest rate equal to LIBOR (5.25% as of December 31, 1998); interest payable quarterly. The loan matures prior to the year 2001. Additionally, Dr. Gleitman has obtained two loans aggregating \$250,000 from the Company. One loan, in the amount of \$150,000, has a term of 10 years, an interest rate of LIBOR plus .8% and is without recourse to Dr. Gleitman. The second loan, in the amount of \$100,000, has a term of 10 years, an interest rate of LIBOR plus .5% and is with recourse to Dr. Gleitman.

(2) Consists of amounts reimbursed for the payment of taxes.

- (3) Comprised of Ampal (Israel)'s contribution pursuant to: (i) Ampal (Israel)'s Pension Plan of \$39,070, (ii) Ampal (Israel)'s education fund of \$18,511 and (iii) use of a car of \$7,971.
- (4) Comprised of Ampal (Israel)'s contribution pursuant to: (i) Ampal (Israel)'s Pension Plan of \$23,962 and (ii) Ampal (Israel)'s education fund of \$13,482.
- (5) Mr. Steinmetz is employed by Ampal Industries (Israel) Limited, an indirect wholly-owned subsidiary of Ampal, on a part-time basis pursuant to an employment agreement effective as of January 1, 1997. Mr. Steinmetz is entitled to receive a salary of \$175,000 (payable in Shekels) per annum (plus benefits), the total for 1998 was \$144,000. His agreement can be terminated by either party upon thirty days notice.
- (6) Comprised of Ampal (Israel)'s contribution to: (i) Ampal (Israel)'s Pension Plan of \$22,778 and (ii) Ampal (Israel)'s education fund of \$10,781.
- (7) Comprised of Ampal (Israel)'s contribution to: (i) Ampal (Israel)'s Pension Plan of \$13,579 and (ii) Ampal (Israel)'s education fund of \$7,640.
- (8) Mr. Shlomo Meichor has been employed by Ampal since March 1, 1998 and was appointed Vice President-Finance and Treasurer of Ampal, effective April 1, 1998. Pursuant to an employment agreement, dated March 5, 1998, Mr. Meichor receives a base salary of \$144,000 per annum, adjusted annually in accordance with the United States consumer price index (payable in Shekels) plus benefits and use of a car. His agreement can be terminated upon two months' notice and after the two months' notice period expires Mr. Meichor is entitled to receive his salary for an additional four months.
- (9) Comprised of Ampal (Israel)'s contribution pursuant to: (i) Ampal (Israel)'s Pension Plan of \$19,323, (ii) Ampal (Israel)'s education fund of \$9,155 and (iii) use of a car of \$3,391.
- (10) Ms. Kanter has been Vice President-Accounting of Ampal since September 1995 and Controller of Ampal since August 1990.
- (11) Comprised of Ampal's contribution pursuant to: (i) Ampal's Pension Plan of \$10,873; and (ii) Ampal's Savings Plan of \$3,489.
- (12) Comprised of Ampal's contribution pursuant to: (i) Ampal's Pension Plan of \$6,753; and (ii) Ampal's Savings Plan of \$2,476.
- (13) Comprised of Ampal's contribution pursuant to: (i) Ampal's Pension Plan of \$6,893; and (ii) Ampal's Savings Plan of \$2,473.
- (14) Mr. Lefkowitz resigned as President and Director of Ampal on March 26, 1998 but continued as an employee of Ampal until September 1998.
- (15) Comprised of Ampal's contribution pursuant to: (i) Ampal's Pension Plan of \$19,788; (ii) accrued vacation benefit of \$58,605; (iii) use of a car of \$8,819 and a severance payment of \$355,531. See "Other Benefits" below for a description of such plans.
- (16) Comprised of Ampal's contribution pursuant to: (i) Ampal's Pension Plan of \$16,592; (ii) Ampal's Supplementary Executive Retirement Plan of \$12,111 and (iii) Ampal's Savings Plan of \$4,500.
- (17) Comprised of Ampal's contribution pursuant to: (i) Ampal's Pension Plan of \$15,476; (ii) Ampal's Supplementary Executive Retirement Plan of \$8,899 and
(iii) Ampal's Savings Plan of \$4,425.
- (18) Ms. Sharir resigned as Vice President-Israel Operations on August 6, 1998.
- (19) Comprised of Ampal (Israel)'s contribution to: (i) Ampal (Israel)'s Pension Plan of

\$12,942, (ii) Ampal (Israel)'s education fund of \$6,143 and a severance payment of \$228,784.

(20) Comprised of Ampal (Israel)'s contribution to: (i) Ampal (Israel)'s Pension Plan of \$20,899 and (ii) Ampal (Israel)'s education fund of \$8,943.

(21) Comprised of Ampal (Israel)'s contribution to: (i) Ampal (Israel)'s Pension Plan of \$19,239 and (ii) Ampal (Israel)'s education fund of \$8,124.

FISCAL YEAR-END OPTION VALUES

Name -----	Number of Securities Underlying Unexercised Options at Fiscal Year-End(1)	
	Exercisable	Unexercisable
Yehoshua Gleitman.....	437,500	562,500
Raz Steinmetz.....	0	0
Shlomo Meichor.....	0	0
Alla Kanter.....	8,000(2)	0
Lawrence Lefkowitz.....	0	0
Miri Lent Sharir.....	0	0

(1) This represents the total number of shares of Class A Stock subject to stock options held by the named executive officer at December 31, 1998.

(2) Represents options which expired January 24, 1999.

At the June 9, 1998 annual meeting of Ampal's shareholders (the "Effective Date"), Ampal's shareholders approved the grant of options and purchase rights to Dr. Yehoshua Gleitman, Ampal's Chief Executive Officer. The terms of the options approved by the shareholders is as follows:

No. of Options	Exercise Price	Term
200,000	\$6.75	4.25 years
300,000	\$8	7 years
500,000	\$10	10 years

One-fourth (plus an additional one-sixteenth) of all such options vest immediately and the remaining options will vest at a rate of one-sixteenth of the total number of options every three months until March 2001. The options for 200,000 shares with an exercise price of \$6.75 will expire four years and three months after the Effective Date; the options for 300,000 shares with an exercise price of \$8 will expire on the seventh anniversary after the Effective Date; and the options for 500,000 shares with an exercise price of \$10 will expire on the tenth anniversary after the Effective Date. All options that have not vested prior to Dr. Gleitman ceasing to be an employee of Ampal or its subsidiary will terminate and not be exercisable. Dr. Gleitman will then have the greater of (i) two time the length of any applicable termination notice period and (ii) 30 days to exercise vested options. Dr. Gleitman was granted the right to exercise his options through a cashless exercise of options.

Dr. Gleitman was also granted the right to purchase up to 200,000 shares of Class A Stock at a price equal to 80% of the average closing sales prices of the Class A Stock during the 30 days prior to the exercise of the particular purchase right. The purchase rights vest and terminate in blocks of 50,000. In November 1998, Dr. Gleitman exercised purchase rights to acquire 100,000 shares of Class A Stock.

Other Benefits

Ampal maintains a money purchase pension plan ("Pension Plan") for its eligible employees. Eligible employees are all full-time employees of Ampal except non-resident aliens, night-shift employees and employees represented by a collective bargaining unit. Ampal's contribution is equal to 7% of each employee's compensation plus 5.7% of the compensation in excess of the Social Security taxable wage base for that year.

Employees become vested in amounts contributed by Ampal depending on the number of years of service, as provided in the following table:

Years of Service Percentage ----- -----	Vested
less than 2 years.....	0%
2 but less than 3 years.....	20%
3 but less than 4 years.....	40%
4 but less than 5 years.....	60%
5 but less than 6 years.....	80%
6 or more years.....	100%

Benefits under the Pension Plan are paid in a lump sum, in an annuity form or in installments.

Ampal maintains a savings plan (the "Savings Plan") for its eligible employees pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). Eligible employees are all employees of Ampal except non-resident aliens, night-shift employees and employees represented by a collective bargaining unit. Participation by employees in the Savings Plan is voluntary. Participating employees may direct that a specific percentage of their annual compensation (up to 15%) be contributed to a self-directed 401(k) savings account. The amount which any employee could contribute to his or her

401(k) savings account in 1998 was limited under the Code to \$10,000. Effective January 1, 1996, the Savings Plan was amended so that Ampal matches 50% of each employee's contribution up to a maximum of 3% of the employee's compensation. Employees who were eligible to participate in the Savings Plan as of December 31, 1995 are 100% vested at all times in the account balances maintained in their 401(k) savings account. Employees who became eligible to participate in the Savings Plan on or after January 1, 1996 become vested in amounts contributed by Ampal depending on the number of years of service, as provided in the following table:

Years of Service Percentage ----- -----	Vested
less than 2 years.....	0%
2 but less than 3 years.....	20%
3 but less than 4 years.....	40%
4 but less than 5 years.....	60%
5 but less than 6 years.....	80%
6 or more years.....	100%

Benefits under the Savings Plan are required to be paid in a single, lump-sum distribution. Payment is usually made after termination of employment.

In 1994, Ampal established a Supplementary Executive Retirement Plan ("SERP") for its eligible employees. Ampal's obligation under the SERP is to pay to affected employees the amount that would have been paid to them by the Pension Plan but for the operation of Section 401(a)(17) of the Code.

Compensation of Directors

Directors of Ampal (other than Mr. R. Steinmetz) receive \$500 per Board meeting attended. The Chairman of the Board receives \$2,000. Such persons also receive the same amount for attendance at meetings of committees of the Board, provided that such committee meetings are on separate days and on a day other than the day of a regularly scheduled Board meeting.

Stock Option Plan

In November 1993, the Board approved a stock option plan (the "Stock Option Plan") which provides for grants of options to purchase up to 200,000 shares of Ampal Class A Stock in the aggregate to employees, officers and directors of Ampal and certain subsidiaries of Ampal. Options granted under the Stock Option Plan may be either options which are intended to qualify as "incentive stock options" within the meaning of Section 422 of the Code ("ISOs"), or options that are not intended to so qualify ("Non-ISOs"). The Stock Option Plan was approved by Ampal's shareholders on September 22, 1994.

The Stock Option Plan is administered by the Board or by a Stock Option Committee thereof (the "Committee") consisting exclusively of directors who are not to be granted options under the Stock Option Plan. The Board (or the Committee) determines, subject to the terms of the Stock Option Plan, the individuals to whom options are to be granted and the terms of the options, including the exercise price, number of shares subject to each option, whether the option is to qualify as an ISO and the vesting of rights to exercise each option. Currently, the Stock Option Committee is administered by a committee consisting of Mr. Arnon, Mr. Henderson (Chairman) and Mr. Peled.

The exercise price of each ISO granted under the Plan must not be less than the fair market value of the shares on the date of grant or 110% of the fair market value on the date of grant if the ISO grantee owns stock representing more than 10% of the voting power of Ampal's capital stock or value of all classes of stock of Ampal or a subsidiary corporation. The exercise price of each Non-ISO granted under the Stock Option Plan, which may be less than fair market value on the date of grant, will be fixed by the Board (or the Committee) at the time the Non-ISO is granted.

The Board (or the Committee) shall determine the dates on which each option shall be exercisable and the conditions precedent to such exercise. However, all options, other than those granted to non-employee directors of Ampal, may not be exercisable prior to the second anniversary of their date of grant. Options granted to non-employee directors of Ampal shall be exercisable immediately upon grant. The terms of options granted under the Stock Option Plan may not exceed five years.

To the extent that a grant of options results in the aggregate fair market value of the shares of Class A Stock with respect to which ISOs are exercisable for the first time by an optionee during any calendar year exceeds \$100,000, such options are treated as Non-ISOs.

Pursuant to an amendment to the Stock Option Plan, dated March 23, 1994, optionees may pay the exercise price or their withholding tax obligation with the shares of Class A Stock which are to be delivered upon exercise.

In January 1994, pursuant to the Stock Option Plan, Non-ISO Options to purchase 134,900 shares of Class A Stock were granted to employees, officers and directors of Ampal and certain subsidiaries of Ampal. Currently, options to purchase 35,750 shares of Class A Stock remain outstanding not including options granted to Dr. Gleitman.

In March 1998, the Board approved a Long-term Incentive Plan (the "1998 Plan") permitting the granting of options to all employees, officers, directors and consultants of the Company and its subsidiaries to purchase up to an aggregate of 400,000 shares of Class A Stock. The options granted may be either incentive stock options, at an exercise price to be determined by the Committee but not less than 100% of the fair market value of the underlying options on the date of grant, or non-incentive stock options, at an exercise price to be determined by the Committee. The Committee may also grant, at its discretion, "restricted stock", "dividend equivalent awards", which entitle the recipient to receive dividends in the form of Class A stock, cash or a combination of both and "stock appreciation rights," which permit the recipient to receive an amount in the form of Class A Stock, cash or a combination of both, equal to the number of shares of Class A Stock with respect to which the rights are exercised multiplied by the excess of the fair market value of the Class A Stock on the exercise date over the exercise price. The 1998 Plan remains in effect for a period of ten years.

Also in March 1998, the Company entered into a Stock Option and Stock Purchase Agreement ("the Agreement") with the Company's CEO. Pursuant to the Agreement, the CEO was granted options to purchase up to 1,000,000 shares of the Company's Class A Stock. The Company also granted, based on certain terms and conditions, the rights to purchase ("Share Purchase Rights"), at a discount, up to 200,000 shares of the Company's Class A Stock.

Compensation Committee Interlocks and Insider Participation

During 1998, members of the Executive Committee of the Board of Directors which functions as the compensation committee of Ampal included: Mr. Daniel Steinmetz; Mr. Yaacov Elinav, Senior Deputy Managing Director of Hapoalim; and Mr. Raz Steinmetz (Chairman). For a description of business transactions between Ampal and Hapoalim and between Ampal and the Steinmetz group, see "Certain Relationships and Related Party Transactions."

Item 12. Security Ownership of Certain Beneficial Ownership and Management

Principal Shareholders of Ampal

The following table sets forth information as of March 18, 1999 as to the holders known to Ampal who beneficially own more than 5% of the Class A Stock, the only outstanding series of voting securities. For purposes of computation of the percentage ownership of Class A Stock set forth in the table, conversion of any 4% Cumulative Convertible Preferred Stock (the "4% Preferred Stock") and 6 1/2% Cumulative Convertible Preferred Stock (the "6 1/2% Preferred Stock") owned by such beneficial owner has been assumed, without increasing the number of shares of Class A Stock outstanding by amounts arising from possible conversions of convertible securities held by shareholders other than such beneficial owner. As at March 18, 1999, there were outstanding 24,114,062 (not including treasury shares) shares of Class A Stock of Ampal. In addition, there were outstanding 920,186 non-voting shares of 6 1/2% Preferred Stock (each convertible into 3 shares of Class A Stock) and 171,305 non-voting shares of 4% Preferred Stock (each convertible into 5 shares of Class A Stock).

Security Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Daniel Steinmetz..... Rebar Financial Corp. c/o Icaza, Gonzalez-Ruiz & Aleman (BVI) Ltd. Wickhams Cay, Road Town, Tortola, British Virgin Islands	Class A Stock	11,083,712 shs. (1)	46%
Raz Steinmetz..... Rebar Financial Corp. c/o Icaza, Gonzalez-Ruiz & Aleman (BVI) Ltd. Wickhams Cay, Road Town, Tortola, British Virgin Islands	Class A Stock	11,083,712 shs. (1)	46%
Rebar Financial Corp..... c/o Icaza, Gonzalez-Ruiz & Aleman (BVI) Ltd. Wickhams Cay, Road Town, Tortola, British Virgin Islands	Class A Stock	11,083,712 shs. (1)	46%
Bank Hapoalim B.M..... 50 Rothschild Blvd. Tel Aviv, Israel	Class A Stock	6,258,639 shs. (2)	25.5%

(1) Consists of 11,083,712 shares of Class A Stock held directly by Rebar, as reported by Mr. Daniel Steinmetz, Mr. Raz Steinmetz and Rebar on Amendment to Form 4, dated February 1, 1999, filed with the SEC. Mr. Raz Steinmetz is the President of Rebar and Mr. Daniel Steinmetz is the Vice President. They are the sole directors of Rebar and beneficially own, directly and indirectly, 96% and 4% of the outstanding equity of Rebar, respectively. Certain of the shares of Class A Stock held by Rebar have been pledged to The First International Bank of Israel Ltd.

(2) As reported by Hapoalim on Amendment No. 34 to Schedule 13-D, dated December 18, 1996, filed with the SEC. These shares represent all of the shares owned directly by its wholly-owned subsidiary Atad. Assumes conversion of 122,536 shares of 6 1/2% Preferred Stock and 3,350 shares of 4% Preferred Stock.

Security Ownership of Management

The following table sets forth information as of March 18, 1999 as to each class of equity securities of Ampal or any of its subsidiaries beneficially owned by each director and named executive officer of Ampal listed in the Summary Compensation Table and by all directors and named executive officers of Ampal as a group. All ownerships are direct unless otherwise noted. The table does not include directors or named executive officers who do not own any such shares:

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP OF CLASS A STOCK	PERCENT OF OUTSTANDING SHARES OF CLASS A STOCK
Yehoshua Gleitman.....	537,500 (1)	2%
Lawrence Lefkowitz.....	32,375 (2)	*
Daniel Steinmetz.....	11,083,712 (3)	46%
Raz Steinmetz.....	11,083,712 (3)	46%
All Directors and Executive Officers as a Group.....	11,669,087 (4)	48%

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

(1) Includes 100,000 shares of Class A Stock acquired in November 1998 upon Dr. Gleitman's exercise of purchase rights and 437,500 options to purchase shares of Class A Stock which are currently exercisable.

(2) Includes 23,100 shares of Class A Stock held by a trust under an estate as to which Mr. Lefkowitz is co-personal representative. Mr. Lefkowitz resigned as President and Director of Ampal effective March 26, 1998 and continued to be an employee of Ampal until the expiration of his employment agreement in September 1998.

(3) Attributable to 11,083,712 shares of Class A Stock held directly by Rebar.
See "Security Ownership of Certain Beneficial Owners."

(4) Includes options to purchase 437,500 shares of Class A Stock which are currently exercisable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Board of Directors of Ampal maintains a Related Party Transactions Committee comprised of independent directors which reviews and passes upon the fairness of any business dealings and arrangements (other than borrowings on then prevailing market terms or deposits made in the ordinary course of business) between Ampal and any affiliated party. With certain exceptions, Ampal may not enter into transactions with any officer, director or principal shareholder of Ampal, without first obtaining the approval of the Related Party Transactions Committee or a majority of the disinterested members of the Board of Directors or the shareholders.

The management of Ampal believes that all of the following transactions were done on terms which were no less advantageous to Ampal than could have been obtained from unaffiliated third parties.

Ampal borrows and receives deposits from Hapoalim and its subsidiaries. During 1998, the largest amount of such indebtedness outstanding at any one time was \$65,487,000 and interest expense thereon was \$4,817,000. Additionally, Ampal makes loans to and maintains deposits with Hapoalim and its subsidiaries. The largest amount of such loans and deposits at any one time during 1998 was \$62,958,000 and interest income thereon was \$3,422,000. As of December 31, 1998, the amount of borrowings from Hapoalim and its subsidiaries was \$57,557,000 and the amount of loans to and deposits with Hapoalim and its subsidiaries was \$22,549,000. In 1998, Ampal borrowed \$3 million from Hapoalim under a committed line of credit. Borrowings under this line of credit bear interest at a variable rate of interest equal to LIBOR plus .5%. Such loans and borrowings are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated third persons and, in the opinion of the management of Ampal, do not involve more than normal risk of collectibility or present other unfavorable features.

In connection with the Company's investment in MIRS, the Company borrowed \$35 million from Hapoalim. The loan ("Short-Term Loan") had a term of 90 days and bore interest at a rate of LIBOR plus .5%. On May 4, 1998, the Company received a long-term loan from Hapoalim in the amount of \$36.4 million. The loan is due on March 31, 2008 and bears interest at a rate of LIBOR plus 0.8%. The principal payments are due as follows: 10% on March 31, 2004, 15% on March 31, 2005 and 25% on each of the following dates - March 31, 2006, 2007 and 2008. Interest will be paid annually on March 31 of each year from March 31, 2001 until and including March 31, 2008. The proceeds from the long-term loan was used to repay the Short-Term Loan.

In March 1998, the Company transferred its interest in MIRS to a limited partnership (the "Partnership"). A wholly-owned Israeli subsidiary of Ampal (the "General Partner") is the general partner of the Partnership and owns 75.1% of the Partnership. The limited partners of the Partnership purchased their interests in the Partnership from the Partnership and include (i) an entity owned by Daniel Steinmetz and Raz Steinmetz (directors of Ampal and the controlling persons of Ampal's principal shareholder), (ii) Hapoalim, (iii) an entity owned by Dr.

Yehoshua Gleitman, Ampal's Chief Executive Officer and (iv) an unrelated third party. The related parties purchased their limited partnership interests

on the same terms as an unrelated third party which were determined through arm's length negotiations between the Company and the unrelated third party. A portion of Dr. Gleitman's entity's purchase price was obtained through two loans aggregating \$250,000 from the Company. One loan, in the amount of \$150,000, has a term of 10 years, an interest rate of LIBOR plus .8% and is without recourse to Dr. Gleitman. The second loan, in the amount of \$100,000, has a term of 10 years, an interest rate of LIBOR plus .5% and is with recourse to Dr. Gleitman. Both loans are secured by Dr. Gleitman's interest in the Partnership.

On November 18, 1998, Dr. Gleitman exercised his rights to purchase 100,000 Class A shares at 80% of its value based on the 30 day average sales price on that date. In connection with that purchase, on December 28, 1998, Dr. Gleitman received a loan from the Company in the amount of \$210,000, at a variable interest rate equal to LIBOR (5.25% as of December 31, 1998); interest payable quarterly. The loan matures prior to the year 2001.

Ampal subleases 4,960 rentable square feet of office space leased by Hapoalim at 1177 Avenue of the Americas, New York City under a sublease which expires on August 30, 2009. The base rent which commenced in September 1994, is \$169,000, subject to escalation. In 1998, Ampal's total payments to Hapoalim in connection with this lease totalled \$170,000.

The Company leases office space in various locations in Israel to Hapoalim and its subsidiaries, pursuant to leases which will generally expire in the years between 2000 and 2003, in exchange for total rental payments in 1998 of approximately \$2,870,000. Generally, the annual payments are based upon 10% of the value of the property linked to the Israeli CPI.

At the request of, and pursuant to the terms of an employment agreement with, Ampal, Mr. Lefkowitz has been counsel to Hapoalim and has rendered legal services to its United States branches since August 1990. Mr. Lefkowitz resigned from the Company in September 1998. In 1998, Hapoalim reimbursed Ampal \$73,000 for the services of Mr. Lefkowitz under the arrangement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

	Page
Reference*	

(1) Financial Statements and Supplementary Data	
Ampal-American Israel Corporation and Subsidiaries	
Report of Independent Public Accountants.....	35
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996.....	36
Consolidated Balance Sheets as at December 31, 1998 and 1997....	37
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996.....	39
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 1998, 1997 and 1996.....	41
Consolidated Statements of Comprehensive Income for the years ended December 31, 1998, 1997 and 1996.....	42
Notes to Consolidated Financial Statements.....	44
Supplementary Data:	
Selected quarterly financial data for the years ended December 31, 1998 and 1997.....	61
(2) Financial Statement Schedules	
Schedules which have been omitted are not applicable or the required information is shown in the financial statements or notes thereto.	
(i) Schedule of Representative Rates of Exchange between the U.S. dollar and New Israeli Shekel for three years ended December 31, 1998	
(ii) Consolidated financial statements filed pursuant to Rule 3-09 of Regulation S-X	
Granite Hacarmel Investments Limited and Subsidiaries	
Report of Certified Public Accountants.....	
81	
Consolidated Balance Sheets as at December 31, 1998 and 1997....	
83	
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996.....	
85	
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1998, 1997 and 1996.....	
86	
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996.....	
87	
Notes to Consolidated Financial Statements.....	
91	

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

AM-HAL Ltd.....	132
Ampal Engineering (1994) Ltd.....	133
Ampal Enterprises Ltd.....	135
Ampal Financial Services Ltd.....	136
Ampal Holdings (1991) Ltd.....	137

Ampal Industries (Israel) Ltd.....	139
Ampal (Israel) Ltd.....	140
Ampal Properties Ltd.....	142
Bay Heart Ltd.	144
Carmel Container Systems Ltd.	147
Country Club Kfar Saba Limited.....	148
Coral World International Limited.....	150
Epsilon Investment House Ltd.....	152
Hod Hasharon Sport Center (1992) Limited Partnership.....	153
Mivnat Holdings Ltd.....	155
Moriah Hotels Ltd.	156
Nir Ltd.....	157
Ophir Holdings Ltd.	159
Orlite Industries (1959) Ltd.....	161
Ortek Ltd.	162
Paradise Industries Ltd. (U.S. Dollars).....	163
Red Sea Marineland Holding (1973) Ltd.....	164
Red Sea Underwater Observatory Ltd.....	165
Renaissance Investment Co. Ltd.....	166
Shmey-Bar Real Estate 1993 Ltd.....	167
Shmey-Bar (T.H.) 1993 Ltd.....	169
Teledata Communications Ltd.....	171
Trinet Investment in High-Tech Ltd.....	172
Trinet Venture Capital Ltd.	174
U.D.S. Ultimate Distribution Systems Ltd.....	176

(3) List of Exhibits

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

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

2b. -- Amendment, dated January 22, 1998, to (i) Purchase and Sale Agreement, dated January 5, 1998, between Ampal Communications, Inc.

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

Exhibit 3 - Articles of Incorporation and By-Laws

3a. Amended and Restated Certificate of Incorporation of Ampal-American Israel Corporation, dated May 28, 1997. (Filed as Exhibit 3a. to Form 10-Q, for the quarter ended June 30, 1997 and incorporated herein by reference. File No. 0-5380).

3b. By-Laws of Ampal-American Israel Corporation as amended, dated June 9, 1998. (Filed as Exhibit 3 to Form 10-Q, for the quarter ended September 30, 1998 and incorporated herein by reference. File No. 0-538).

Exhibit 4 - Instruments defining the rights of security holders, including indentures

4a. Form of Indenture dated as of November 1, 1984. (Filed as Exhibit 4a to Registration Statement No. 2-88582 and incorporated herein by reference).

4b. Form of Indenture dated as of May 1, 1986. (Filed as Exhibit 4a to Pre-Effective Amendment No. 1 to Registration Statement No. 33-5578 and incorporated herein by reference).

Exhibit 10 - Material contracts

10a. Employment contract of Lawrence Lefkowitz, dated July 26, 1993.

(Filed as Exhibit 10.2 to Pre-Effective Amendment No. 1 to Registration Statement No. 33-51023 and incorporated herein by reference).

10b. Legal Services Agreement, dated as of August 1, 1990, between Bank Hapoalim B.M. and Ampal-American Israel Corporation. (Filed as Exhibit 10i to Form 10-K for fiscal year ended December 31, 1990 and incorporated herein by reference. File No. 0-538).

10c. Agreement dated February 7, 1992 among Inertia-Energies Future Technologies Ltd., Yehuda (Yul (i)e Offer, Offer Brothers (Management) Ltd., Offer Shipping Ltd., Offer Ship Holdings Ltd., L.I.N. (Holdings) Ltd., I.I.Z. European Enterprise B.V., AmnV, Amnion Leon, Ampal Industries Inc. and Yeshayahu Landau (Translation). (Filed as Exhibit 10.1 to Pre-Effective Amendment No. 1 to Registration Statement No. 33-51023 and incorporated herein by reference).

10d. Ampal-American Israel Corporation's 1993 Stock Option Plan.

(Filed as Exhibit 10.3 to Pre-Effective Amendment No. 1 to Registration Statement No. 33-51023 and incorporated herein by reference).

10e. Amendment, dated as of March 23, 1994, to Ampal-American Israel Corporation's 1993 Stock Option Plan. (Filed as Exhibit 10h to Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference. File No. 0-538).

10f. Agreement, dated March 22, 1993, between the Investment Company of Bank Leumi, Ltd., and Ophir Holdings Ltd., Mercazim Investments Ltd., Diur B.P. Ltd. and Mivnat Holdings Ltd. (Filed as Exhibit 10.4 to Pre-Effective Amendment No. 1 to Registration Statement No. 33-51023 and incorporated herein by reference).

10g. Committed Line of Credit Agreement, dated as of June 5, 1992, and amendments, dated October 31, 1992 and October 31, 1993. (Filed as Exhibit 10.5 to Pre-Effective Amendment No. 1 to Registration Statement No. 33-51023 and incorporated herein by reference).

10h. Agreement, dated January 18, 1994, between Ampal Industries, Inc.

and Inerta-Energies and Future Technologies Ltd. (Translation). (Filed as Exhibit 10.6 to Pre-Effective Amendment No. 1 to Registration Statement No. 33-51023 and incorporated herein by reference).

10i. Agreement, dated March 30, 1994, between Investment Company of Bank Hapoalim Ltd., Ampal (Israel) Ltd. and Ampal Industries (Israel) Ltd. (Translation). (Filed as Exhibit 10l, to Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference. File No. 0-538).

10j. Share Purchase Contract, dated October 11, 1996, between Ampal Industries, Inc. and Agrifarm International Ltd. (Translation). (Filed as Exhibit 10 to Form 10-Q for the quarter ended September 30, 1996 and incorporated herein by reference. File No. 2-5061).

- 10k. Exchange Agreement, dated as of December 11, 1996, between Ampal-American Israel Corporation and Bank Hapoalim B.M. (Filed as Exhibit 2 to Amendment No. 34 of Schedule 13D filed by Bank Hapoalim B.M. on December 20, 1996 and incorporated herein by reference).
- 10l. Declaration Establishing a Plan for Condominium Ownership of Premises 800 Second Avenue, New York, New York, dated December 12, 1996. (Filed as Exhibit A to Exhibit 10m to Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference. File No. 0-538).
- 10m. Employment Agreement, dated May 28, 1997, among Ampal-American Israel Corporation, Ampal (Israel) Ltd. and Yehoshua Gleitman. (Filed as Exhibit 10a. to Report on Form 10-Q, for the quarter ended June 30, 1997. File No. 0-538).
- 10n. Stock Option and Stock Purchase Agreement dated as of March 27, 1998, between Ampal-American Israel Corporation and Yehoshua Gleitman, as amended. (Filed as Exhibit 10p to Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference. File No. 0-538)
- 10o. Amendment No. 1, dated June 4, 1997, to that certain Legal Services Agreement between Bank Hapoalim B.M. and Ampal-American Israel Corporation. (Filed as Exhibit 10c. to Form 10-Q, for the quarter ended June 30, 1997. File No. 0-538).
- 10p. Agreement dated September 9, 1997, between Ampal Industries (Israel) Limited and Raz Steinmetz. (Filed as Exhibit 10 to Report on Form 10-Q for the quarter ended September 30, 1997. File No. 0-538).
- 10q. Agreement, dated as of March 1, 1997, among Emmes Asset Management Corp., Ampal-American Israel Corporation and Ampal Realty Corporation. (Filed as Exhibit 10s to Form 10-K for the fiscal year year ended December 31, 1997 and incorporated herein by reference. File No. 0-538).
- 10r. Loan Agreement, dated April 27, 1998, between Bank Hapoalim Ltd. and Ampal Communications Limited Partnership. (Filed as Exhibit 10.1 to Report on Form 10-Q, for the quarter ended June 30, 1998. File No. 0-538).
- 10s. Form of Loan Agreement between Ampal Communications Limited Partnership and Bank Leumi Le-Israel B.M. (Filed as Exhibit 10.2 to Report on Form 10-Q, for the quarter ended June 30, 1998. File No. 0-538).
- 10t. Amendment No. 1, dated June 16, 1998, to a letter agreement, dated September 9, 1997, between Ampal Industries (Israel) Limited and Raz Steinmetz. (Filed as Exhibit 10.3 to Report on Form 10-Q, for the quarter ended June 30, 1998. File No. 0-538).

Exhibit 11 - Computation of Earnings Per Share.....

Exhibit 12 - Statement re Computation of Ratios.....

Exhibit 21 - Subsidiaries of the Registrant.....

Exhibit 23 - Consents of Auditors:

AM-HAL Ltd..... Ampal-American Israel Corporation..... Ampal-American Israel Corporation..... Ampal Engineering (1994) Ltd..... Ampal Enterprises Ltd..... Ampal Financial Services Ltd..... Ampal Holding (1991) Ltd..... Ampal Industries (Israel) Ltd..... Ampal (Israel) Ltd..... Ampal Properties Ltd..... Bay Heart, Ltd..... Carmel Container Systems Ltd..... Coral World International Ltd..... Coral World International Ltd..... Country Club Kfar Saba Limited..... Epsilon Investment House Ltd..... Granite Hacarmel Investments Limited..... Hod Hasharon Sport Center (1992) Ltd. Partnership..... Mivnat Holdings Ltd..... Moriah Hotels Ltd..... Nir Ltd..... Ophir Holdings Ltd..... Orlite Industries (1959) Ltd..... Ortek Ltd..... Paradise Industries Ltd..... Red Sea Marineland Holding (1973) Ltd..... Red Sea Underwater Observatory Ltd..... Renaissance Investment Co. Ltd.....

Shmey-Bar Real Estate 1993 Ltd..... Shmey-Bar (T.H.) 1993 Ltd..... Teledata
Communications Ltd..... Trinet Investment in High-Tech Ltd..... Trinet Venture Capital
Ltd..... U.D.S. Ultimate Distribution Systems Ltd.....

Exhibit 24 - Powers of Attorney.....

(b) No reports on Form 8-K were filed during the last quarter of 1998. A Current Report on Form 8-K was filed by the Registrant on February 5, 1998, which described an Item 2 event, the acquisition from Motorola Communications Israel Ltd. of the assets of its shared networks operations.

**REPRESENTATIVE RATES OF EXCHANGE
 BETWEEN THE U.S. DOLLAR AND THE NEW ISRAELI SHEKEL
 FOR THE THREE YEARS ENDED DECEMBER 31, 1998**

The following table shows the amount of New Israeli Shekels equivalent to one U.S. Dollar on the dates indicated:

	1998 -----	1997 -----	1996

March 31	3.597	3.361	
3.111			
June 30	3.667	3.587	
3.203			
September 30	3.845	3.497	
3.220			
December 31	4.160	3.536	
3.251			

[KPMG LOGO]

SOMEKH CHAIKIN

Mail address	Office address	Telephone 872 4 857
8998		
PO Box 240	7 Ergar Street	Fax 972 4 857 9857
Tirat HaCarmel 28101	Tirat HaCarmel 39032	
Israel	Israel	

Tirat HaCarmel, March 23, 1999

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Shareholders of Granite Hacarmel Investments Limited

We have audited the accompanying consolidated balance sheets of Granite Hacarmel Investments Limited and its subsidiaries (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of Vulcan Batteries Ltd., a consolidated subsidiary, whose assets constitute 3.4% and 3.6% of the total consolidated assets as of December 31, 1998 and 1997 respectively, and whose revenues constitute 3.3%, 3% and 3% of the total consolidated revenues for the years ended December 31, 1998, 1997 and 1996, respectively. Those statements were audited by other auditors whose report thereon was furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiary, is based solely on the report of the other auditors. Furthermore, the data included in the financial statements relating to the net asset value of the Company's investments in affiliates and to its equity in their operating results is based on the financial statements of such affiliates, some of which were audited by other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including standards prescribed by the Auditors Regulation (Manner of Auditor's Performance) 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement, whether due to error or intentional misrepresentation. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The above mentioned financial statements were prepared on the basis of the historical cost convention. In historical values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with opinions of the Institute of Certified Public Accountants in Israel.

[KPMG ADDRESS LOGO]

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Furthermore, these statements have, in our opinion, been prepared in accordance with the Securities Regulation (Preparation of Annual Financial Statements) 1993.

Consolidated financial statements, stated in U.S. dollars are included in Note 29 to the financial statements.

Without qualifying our opinion, we would like to bring attention to Note 26 to the financial statements regarding proposals to shorten agreements made by a consolidated company with filling station operators and owners; and other proposals regarding the fuel market. At this time, it is not possible to estimate the effect of the above on the fuel market in general and on the Company in particular.

SOMELEH CHAIKIN
Certified Public Accountants (Israel)

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Adjusted to the Index of December 1998

	N o t e	December 31, ----- 1998	1997 -----
(thousands)		----- Adjusted NIS.	
Current assets			
Cash and cash equivalents		9,760	8,533
Marketable securities	4	8,731	4,730
Trade receivables	5	620,466	530,575
Accounts receivable	5	170,599	
90,278*			
Inventories	6	199,117	292,301
		----- 1,008,673	----- 926,417
Investments, long-term loans and debit balances			
Affiliated companies and others	7	155,640	163,204
Long-term loans	8	80,518	82,609
		=====	=====
		236,158	245,813
		=====	=====
Fixed assets	9		
Cost		1,576,380	1,495,612
Less: Accumulated depreciation		870,344	800,447
		-----	-----
		706,036	695,165
		=====	=====
Intangible assets and deferred charges, net	10	54,054	54,195
		-----	-----
		2,004,921	1,921,590
		=====	=====

* Reclassified

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

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Adjusted to the Index of December 1998

	N	December 31,	
	0	1998	1997
	t	-----	
	e	Adjusted NIS. (thousands)	

Current liabilities			
Credits from banks and others	11	1,064,293	488,876
Current portion of			
convertible debentures	14	14,224	44,858
Trade payables	12	74,669	
56,679*			
Accounts payable	13	145,074	98,227
		-----	-----
		1,298,260	688,640
		-----	-----
Long-term liabilities			
Long-term loans	14	3,964	97,428
Debentures convertible into			
shares of the Company	14	42,673	169,789
Customers' deposits	15	63,252	67,314
Liabilities for employee rights			
upon retirement, net	16	14,163	11,843
Capital notes issued by			
a consolidated company		215	234
		-----	-----
		124,267	346,608
		-----	-----
Minority interest		13,408	11,763
		-----	-----
Collaterals, commitments and			
contingent liabilities	25,26		
Shareholders' equity		568,986	874,579
		-----	-----
		2,004,921	1,921,590
		=====	=====

* Reclassified

Prof. I. Borovich - Chairman of the Board

A. Zilberberg - Director

M. Erez - Managing Director

Date: March 23, 1999

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

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the Index of December 1998

		Year ended December 31,		
	N o t e	1998	1997	1996
		Adjusted NIS. (thousands)		
		-----	-----	-----
Sales		3,159,039	3,356,048	3,378,196
Less: Government imposts		1,348,494	1,357,675	1,309,958
Net sales		1,810,545	1,998,373	2,068,238
Cost of sales	19	1,309,847	1,552,980	1,621,118
Gross profit		500,698	445,393	447,120
Selling and marketing expenses	20	313,093	281,886	276,960
General and administrative expenses	21	68,716	61,493	56,068
		381,809	343,379	333,028
Income from operations		118,889	102,014	114,092
Financing expenses, net (21,487)	22	(22,041)	(25,955)	
Other income, net	23	19,062	14,680	8,617
		(2,979)	(11,275)	
(12,870)				
Income before taxes on income		115,910	90,739	101,222
Taxes on income	24	46,772	35,204	41,454
Income after taxes on income		69,138	55,535	59,768
Company's share in income (loss) of affiliates, net		(9,361)	(136)	773
Minority interest in consolidated subsidiaries (1,709)		(1,052)	95	
Net income for the year		58,725	55,494	58,832
		=====	=====	=====
Earnings per ordinary share (in adjusted NIS.):	18			
Primary		0.49	0.45	0.48
		====	====	====
Fully diluted		0.49	0.42	0.32
		====	====	====

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

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Adjusted to the Index of December 1998

	Capital -----	Premium -----	Retained Earnings -----	Total -----
		Adjusted NIS.	(thousands)	

Balance as at January 1, 1996	234,119	133,054	458,231	825,404
Changes in 1996:				
Net income for the year	--	--	58,832	58,832
Dividend paid	--	--	(32,505)	(32,505)
Balance as at December 31, 1996	234,119	133,054	484,558	851,731
Changes in 1997:				
Net income for the year	--	--	55,494	55,494
Dividend paid	--	--	(32,646)	(32,646)
Balance as at December 31, 1997	234,119	133,054	507,406	874,579
Changes in 1998:				
Conversion of debentures to shares	16,277	119,314*	--	135,591
Net income for the year	--	--	58,725	58,725
Dividend paid	--	--	(500,000)	(500,000)
Proceeds from the sale of the Company's shares by a consolidated company, net	--	91	--	91
Balance as at December 31, 1998	250,396 =====	252,459 =====	66,131 =====	568,986 =====

* Net of issuance expenses in the amount of NIS. 1,952 thousand.

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

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the Index of December 1998

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
	Adjusted NIS. (thousands)		
	-----	-----	-----
Cash flows from operating activities			
Net income	58,725	55,494	58,832
Adjustments to reconcile net income to operating cash flows (A):	113,029	(80,776)	15,187
	-----	-----	-----
Net cash provided by (used for) operating activities	171,754	(25,282)	74,019
	-----	-----	-----
Cash flows from investing activities			
Acquisition of fixed assets	(106,048)	(105,420)	(102,597)
Proceeds from sale of fixed assets (5)	18,772	34,195	3,956
Dividend received from affiliates	--	--	1,694
Long-term loans granted (1)	(19,787)	(23,845)	(15,877)
Collection of long-term loans	12,255	15,345	11,819
Investment in intangible and deferred charges	(11,293)	(21,156)	(16,706)
Investment in affiliated companies	(1,720)	(17,643)	(79,572)
Proceeds from redemption of compulsory government loan	--	174	848
Proceeds from (investments in) marketable securities, net	(6,551)	2,562	(4,454)
Investment in companies carried on the cost basis	(1,520)	(3,905)	--
Acquisition of shares in a subsidiary company	--	--	(1,884)
Repayment of capital notes of interested parties	--	--	12,870
Acquisition of initially consolidated companies (B), (3)	--	--	(42)
	-----	-----	-----
Net cash used for investing activities	(115,892)	(119,693)	(189,945)
	-----	-----	-----
C/F	55,862	(144,975)	(115,926)
	-----	-----	-----

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Adjusted to the Index of December 1998

	Year ended December 31,		
	1998	1997	1996
	Adjusted NIS. (thousands)		
B/F	55,862	(144,975)	(115,926)
Cash flows from financing activities:			
Dividend paid	(500,000)	(32,646)	(32,505)
Dividend paid to minority shareholders in a consolidated subsidiary	(283)	(527)	(354)
Short-term credit from banks, net	553,539	124,340	110,448
Long-term loans received	807	94,416	69,986
Long-term loans repaid (2)	(70,821)	(1,312)	(1,100)
Redemption of capital notes issued by a consolidated company	--	--	(89)
Customers' deposits received	2,300	2,753	2,417
Customers' deposits repaid	(890)	(608)	(729)
Redemption of debentures (4)	(39,378)	(44,710)	(44,128)
Proceeds from sale of shares of a Company held by a consolidated company, net	91	--	--
Net cash provided by (used for) financing activities	(54,635)	141,706	103,946
Increase (Decrease) in cash and cash equivalents	1,227	(3,269)	(11,980)
Cash and cash equivalents at beginning of year	8,533	11,802	23,782
Cash and cash equivalents at end of year	9,760	8,533	11,802
	=====	=====	=====

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

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Adjusted to the Index of December 1998

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
	Adjusted NIS. (thousands)		
	-----	-----	-----
(A)			
Adjustments to reconcile net income to operating cash flows:			
Income and expenses not requiring cash flows:			
Depreciation and amortization	86,936	83,499	80,038
Deferred taxes, net	316	(8,194)	(3,226)
Increase in liabilities for employee rights upon retirement, net	2,492	1,600	1,061
Minority interest in (loss) income of consolidated subsidiaries	1,052	(95)	1,709
Company's share in loss (less undistributed income) of affiliates, net	16,104	3,272	1,023
Capital gains	(9,959)	(6,980)	(361)
Erosion of investments in capital notes, net	(235)	(418)	(200)
Erosion of long-term loans, debentures and capital notes issued	18,210	5,431	(18,704)
Erosion of loans granted	3,359	352	1,409
Decrease (Increase) in value of compulsory Government loan and securities, net	2,481	(1,633)	(1,111)
Erosion of customers' deposits	(5,472)	(4,824)	(4,395)
(Increase) Decrease of investment	(1,152)	3,738	--
Write-off of loan to an affiliated company	1,381)	5,373	--
Profit on change in percent ownership of an affiliated company	(49)	--	--
Changes in assets and liabilities:			
Decrease (Increase) in trade and accounts receivable (1)(2)	(154,843)	(3,324)	(156,458)
Decrease in inventories	92,632	55,586	20,263
Increase (Decrease) in trade and accounts payable	59,776	(214,159)	94,139
	-----	-----	-----
	113,029	(80,776)	15,187
	=====	=====	=====

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

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Adjusted to the Index of December 1998

	Year ended December 31,		

	1998	1997	
	----	----	
1996			

			Adjusted NIS. (thousands)

(B)			
Acquisition of initially consolidated companies			
Assets and liabilities of the consolidated companies as at the acquisition date:			
Working capital (not including cash and cash equivalents)	(1,733)	729	30
Fixed assets, net (6)	2,482	(214)	
Long-term debt, net	(731)	(439)	--
Investment in an affiliated company	67	--	--
Goodwill created at acquisition (1,195)	685	(117)	
Minority interest as of the acquisition date	(770)	41	1,129
	-----	-----	
-----	--	--	
(42)			
=====	=====	=====	

Activities not requiring cash flow:

- (1) In 1998, current receivables from customers were converted into long-term loans in the amount of NIS.10,592 thousand (1997 - NIS.16,789 thousand).
- (2) In 1996, the redemption of a loan received from an affiliated company in the amount of NIS.5,230 thousand was offset against a receivable from the affiliated company.
- (3) In 1998, acquisition of a company initially consolidated in consideration of its debt in the amount of NIS. 1,481 thousand.
- (4) In 1998, NIS. 135,591 thousand of debentures were converted to shares, and in a consolidated company NIS. 151 thousand of debentures were converted to shares.
- (5) On December 31, 1998 an amount of NIS. 14,023 thousand was included in accounts receivable, representing the amount not yet received on account of the sale of fixed assets in 1998. (1997 - NIS. 14,621 thousand on accounts of the sale of fixed assets in 1997)
- (6) On December 31, 1998 an amount of NIS. 5,644 thousand was reflected in accounts payable, representing the balance due to a city relating to 50% of the plot of land sold to Rubinstein (see note 25.C.2.c).

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

GRANITE HACARMEL INVESTMENTS LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS IN ADJUSTED VALUES

A. General

1. Granite Hacarmel Investments Ltd. (hereafter "the Company")(P.C. 520037177) and the other companies of the group have prepared their financial statements on the basis of historical cost which was adjusted to the changes in the general purchasing power of the shekel.
2. The adjusted values presented in the adjusted statements do not necessarily reflect realizable value or current economic value, but rather the cost adjusted for the changes in the general purchasing power of the shekel.
3. The term "cost" used in the adjusted statements means cost in adjusted shekels unless otherwise stated.
4. The comparative figures (including the monetary items) are stated in shekels adjusted to the index of December 1998.

B. Basis of Adjustment - Consumer Price Index

The adjusted amounts are expressed in New Israel Shekels, the purchasing power of which reflects the average price level of the month of December 1998, based on the Consumer Price Index published by the Central Bureau of Statistics ("Index"), on January 15, 1999
(see Note 2.G.1.)

C. Principles of Adjustment

1. Balance Sheet

- a. The non-monetary items were adjusted for the changes in the Index since their acquisition or creation and until the balance sheet date. The following items were the main items which were treated as non-monetary items:
fixed assets and related accumulated depreciation, investments carried at cost, inventories, except for inventories of crude oil and refined products, (see Note 2.C.2) deferred charges and the related accumulated amortization, and shareholders' equity.
- b. The value of the investments in affiliated companies carried on the equity basis was computed on the basis of the adjusted statements of the affiliated companies.
- c. Deferred taxes, net were computed on the basis of the adjusted data.
- d. Monetary items are stated in the adjusted statements at their nominal values.

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS IN ADJUSTED VALUES (CONTINUED)

2. Statement of Income The items of the statement of income were adjusted in accordance with the changes in the consumer price index as follows:

- a. Amounts relating to non-monetary items in the balance sheet (e.g. depreciation and amortization), or provisions included in the balance sheet (e.g. severance indemnities, vacation pay) were adjusted in accordance with the changes in the corresponding balance sheet items.
- b. Other amounts in the statement of income (e.g. sales, purchases, other current expenses), except for financing expenses (income) net, are stated at their adjusted amounts based on the index for the month of the related transactions.
- c. The net financing item, reflects financing income and expenses at real terms, erosion of monetary items during the year, profit and loss arising from realization and valuation of marketable securities and profit and loss from financial instruments.
- d. The Company's equity in the operating results of the affiliated companies and the minority interest in the results of consolidated subsidiaries were determined on the basis of the adjusted statements of the investee companies.
- e. Current taxes are composed of payments on account during the year in addition to amounts payable as of the balance sheet date (or net of refunds claimed as of the balance sheet date). The payments on account were adjusted based on the prevailing index on the date of each payment, while the amounts payable (or claimed as refund) are included without adjustment. Accordingly, the current taxes include the expenses arising from the erosion of the payments on account of taxes from the date of payments to the balance sheet date.

Deferred taxes - see Note 2.J.

NOTE 2 - SIGNIFICANT REPORTING AND ACCOUNTING POLICIES

A. Principles of consolidation

1. The consolidated financial statements of the Company include the consolidated financial statements of the Company and its subsidiaries. The list of subsidiaries which are included in the consolidated financial statements and the percent of ownership and control therein are included in a separate schedule to the financial statements.
2. Intercompany balances and transactions of consolidated companies have been eliminated.

NOTE 2 - SIGNIFICANT REPORTING AND ACCOUNTING POLICIES (CONTINUED)

B. Investments in subsidiary and affiliated companies

1 The investments in subsidiaries and affiliated companies are reflected in the financial statements in accordance with their adjusted equity at the balance sheet date, together with the balance of the excess cost or net of the balance of deferred credits. Other investments are stated at cost or under which does not exceed equity as of the balance sheet date. Subsidiary companies own several other inactive and/or insignificant subsidiaries and therefore are not consolidated and are carried at cost, which does not exceed their equity as at the balance sheet date.

2. The excess of cost of investments in consolidated subsidiaries, which is not related to specific assets, over the value of net assets acquired ("Goodwill"), is included in "Intangible assets and deferred charges, net" and is amortized on the straight-line method over a period of ten years.

The excess value of net assets acquired over cost of investments in affiliated companies, which is not related to specific assets, is offset against the excess of cost included in "Intangible assets and deferred charges, net" and is amortized on the straight line method over a period of ten years.

3. The investments of the Company in capital notes of affiliated companies are presented in the financial statements of the Company in accordance with the requirements of the Securities Authority regarding transactions between the Company and its interested parties.

4. A list of affiliated companies is included in a schedule attached to the financial statements.

C. Valuation of inventories

1. Inventory of crude oil and refined products

The major part of the crude oil and refined product inventories consists of Emergency Inventories. The Emergency Inventories are valued based on current value, which does not exceed market value in accordance with the lower of the changes in the exchange rate determined by the Fuel Authority ("Fuel Authority rate") or the dollar exchange rate. In all instances, the recovery of the value of the Emergency Inventories valued at the Fuel Authority rate are guaranteed by the Government in accordance with the Commodities and Services Control Order (Arrangements in the Oil Economy - 1988).

The commercial inventories (crude oil and refined products) are stated at the lower of cost or market. The cost is determined by the first-in, first-out method.

NOTE 2 - SIGNIFICANT REPORTING AND ACCOUNTING POLICIES (CONTINUED)

2. Other inventories The inventories of luboils, spare parts and others are stated at the lower of cost or market.

The cost is determined by the first-in, first-out method except for spare parts, which are valued by the moving average method.

D. Fixed assets

Fixed assets are carried at cost, net of investment grants, or at cost together with the addition of excess of cost over net asset value related to specific assets. Betterments and improvements are charged to assets while maintenance and repair expenses are charged as incurred to income.

E. Depreciation and Amortization

Depreciation is computed on the straight line method at annual rates considered to be sufficient for depreciating the assets over their estimated useful lives.

The annual rates of depreciation are as follows: %

Buildings (including temporary and rental buildings)	2 - 6.5
Machinery and equipment	5 - 15
Vehicles	15 - 20
Computers	20 - 33
Furniture and office equipment (reflected in machinery and equipment)	6 - 10

The excess of cost over net asset value related to specific assets is depreciated over the remaining useful life as determined at the time the excess of cost was related to those assets.

Leasehold rights are amortized over the term of the lease.

F. Debentures convertible into shares

1. Convertible debentures are presented in accordance with the Opinion No. 53 of the Institute of Certified Public Accountants in Israel on the basis of the probability of their conversion into shares. Debentures are reflected in the financial statements at their liability value.

2. Costs relating to the issuance of convertible debentures are amortized over the period remaining until their maturity.

NOTE 2 - SIGNIFICANT REPORTING AND ACCOUNTING POLICIES (CONTINUED)

G. Foreign currency and linkage basis

1. Assets (other than securities) and liabilities in foreign currencies or linked thereto are stated at the exchange rates in effect for the balance sheet date.

Assets (other than securities) and liabilities linked to the Index, are stated according to the linkage conditions applied to each balance.

The Index, the exchange rates and the rate of changes therein were as follows:

	December 31,			Changes in %	
	1998	1997	1996	1998	1997
1996					
Index	166.3	153.1	143.1	8.6	7.0
10.6					
Exchange rate of the U.S. dollar	4.160	3.536	3.251	17.6	8.8
3.7					

2. Income and expenses in foreign currencies or linked thereto are included in the appropriate items of the statements of income based on the exchange rate in effect when such items were recorded.

3. Exchange rate or linkage differences resulting from the adjustment of assets and liabilities in foreign currency or of assets and liabilities linked to the Index are included in the statements of income in the appropriate items at the time incurred.

H. Marketable Securities

The marketable securities are carried at their market value on the date of the balance sheet. The changes in the value of the securities are reflected in the statements of income.

I. Provision for doubtful receivables

The Company provides specifically for receivables the collection of which is doubtful according to management's opinion.

J. Deferred taxes

Deferred taxes are computed for the purpose of the adjusted financial statements in respect of those components which create the difference between results measured in the adjusted financial statements and the results measured for income tax purposes. The deferred taxes are calculated according to the liability method at tax rates that will be in effect when the deferred taxes will be utilized, using tax rates that are known at the time of preparation of the financial statements (See note 24.b.).

NOTE 2 - SIGNIFICANT REPORTING AND ACCOUNTING POLICIES (CONTINUED)

1. The main factors in respect of which deferred taxes have been included are as follows:

- a. Differences in depreciation and amortization for accounting and tax purposes;
- b. Differences between the value of inventories for accounting and tax purposes;
- c. Timing differences in recognition of income and expense items for accounting and tax purposes (mainly linkage differences on customers' deposits and provisions for employee rights upon retirement).

2. The main factors in respect of which deferred taxes have not been computed:

- a. Amount of the adjustment for the change in the purchasing power of the New Israel Shekels relating to buildings and private motor cars, in accordance with the rules determined by the Institute of Certified Public Accountants in Israel.
- b. Investments in subsidiaries and affiliates, where it is the Company's intention to hold these investments rather than to sell them.

K. Recognition of income

1. Product sales - Income from the sale of products is recorded upon dispatch to the customer.
2. Rental income - Rental income is recorded upon receipt of payment, proportionately to the relevant period.
3. Construction project - Income from a construction project is recorded in accordance with the Opinion No. 6 of the Institute of Certified Public Accountants in Israel.

L. Provision for linkage increments on customers' deposits

The wholly-owned subsidiary, Supergas Israel Gas Distribution Company Ltd. is obligated under a Government decree to pay customers terminating their gas purchasing agreement an amount equal to the latest approved deposit authorized by the Ministry of Trade and Industry, together with linkage increments from the date of the last approval to the date of payment. In periods subsequent to the last approval, Supergas provides for adjusting the amounts of the deposits on the basis of the expected next updating that it plans to request. Supergas provides for this liability on a discounted present value basis.

NOTE 2 - SIGNIFICANT REPORTING AND ACCOUNTING POLICIES (CONTINUED)

M. Earnings per share

1. Primary earnings The earnings per share are computed in accordance with Opinion No. 55 of the Institute of Certified Public Accountants in Israel, based on the weighted average of shares outstanding.

2. Fully diluted earnings The fully diluted earnings per share are computed on the basis of the computation of the primary earnings per share taking into consideration theoretical conversion of the convertible securities, subject to an anti dilutive test as stated in the aforementioned Opinion.

N. Foreign currency futures transactions

Sonol Israel Limited entered into a "free dollar transaction" with a bank by which Sonol acquired U.S. dollars bearing interest at variable rates, against an unlinked shekel loan, bearing interest at variable rates. The transaction may be closed at any time by netting the liability against the asset. The accumulated effect of the transaction is reflected in the statements of income.

O. Adjustment of computer systems to the year 2000

Costs incurred for adjusting and updating the existing programs of the Company in order to distinguish between the years of the twentieth century and those of the twenty first century (adjustment to the year 2000) are charged as incurred to current expenses. Regarding the uncertainty arising from the above see also note 25.F. The costs of acquiring new programs which are compatible to the year 2000 are capitalized as investments.

P. Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to use estimates and valuations which influence the reported amounts of assets and liabilities the disclosure regarding contingent assets and liabilities, and also, the amounts of income and expenses recorded in the reporting period. Actual results may differ from these estimates.

Q. Presentation of transactions between the Company and a controlling party.

Transactions between the Company and a controlling party are presented in accordance with the Securities Regulation (Presentation of transactions between the Company and Controlling party in the Financial Statements) - 1996.

NOTE 3 - ACCOUNTING WITH THE FUEL AUTHORITY AND THE REFORM IN THE ENERGY SECTOR

A. Sonol Israel Ltd. ("Sonol")

1. Amounts due to or from the Fuel Authority, to the extent still provisional, are included each year in the accounts according to estimates prepared by Sonol based on past experience. Differences which subsequently arise are reflected in the results of the year in which such differences are determined.
2. All costs and expenses related to the holding of Emergency Inventories are fully recoverable from the Government while the holding of Commercial inventories is at the risk of the oil marketing companies.
3. Government retail price controls have been lifted from all fuel products marketed through public stations with the exception of benzine 95 and 96 octane.
4. Pursuant to the recommendations of the committee previously appointed by the Minister of Energy and Infrastructure, the Minister of Energy and Infrastructure has announced his intention to change the policy regarding the ownership of Emergency Inventories of crude oil and refined products and to separate them from the commercial inventories of the oil companies. During the years 1996-1998 a partial transfer of Emergency Inventories was carried out from the oil marketing companies to other parties. Also, the Government intends to separate the storage of refined products included in the Emergency Inventories from the storage of refined products used in current operations, and in the future, to issue tenders to determine the party who will hold the Emergency Inventories in warehouses specially designated by the government. In the opinion of the Company, no negative effect on the financial position and profitability of the subsidiary company, Sonol, is expected as a result of the above changes.

NOTE 3 - ACCOUNTING WITH THE FUEL AUTHORITY AND THE REFORM FOR THE ENERGY SECTOR
(CONTINUED)

5. In accordance with a Government ordinance issued by the Finance Minister and the Minister of Energy and Infrastructure regarding the supplying of aviation kerosene (hereinafter "ATK") to the airline companies at Ben-Gurion Airport, as of September 1, 1996, Aviation Services Ltd. (an affiliated company) (hereinafter "Aviation Services") ceased to be the sole supplier of ATK. Sonol was one of the suppliers of ATK to Aviation Services for many years. As a result of the cancellation of the right of Aviation Services to supply ATK, Sonol has, like other fuel companies, become a direct supplier of ATK to the airline companies at Ben-Gurion airport. The decree also determined the prices for refueling services and for infrastructure services provided to the airline companies at Ben-Gurion airport. In accordance with agreements signed with the budget division of the Finance Ministry and with the Airports Authority, Aviation Services will provide the refueling services and its subsidiary (50% owned), Aviation Properties Ltd., will provide the infrastructure services. The agreements do not provide Aviation Services with exclusivity in providing refueling services at Ben-Gurion airport, and recently Airports Authority has announced its intention to publish a tender for an additional provider of fueling service.

At this time, it is too early to determine the effect of these changes on the fuel market, in general, and on Sonol, in particular.

B. Supergas

Supergas lodged a claim in the District Court for a declarative judgement against the Ministry of Energy and Infrastructure, the Fuel Authority, regarding two matters relating to the period before the Gas Reform (commencing on August 1, 1989). In its ruling, the Court accepted Supergas' claim on one matter and rejected the second claim. The Government and Supergas submitted an appeal to the Supreme Court and concurrently they negotiated to compromise the dispute. In December 1996, the parties reached a compromise agreement which received the status of a Supreme Court ruling and under whose terms the Government paid Supergas the amount of NIS.

6.1 million, which was netted against "Government imposts" in statements of income for 1996.

NOTE 4 - MARKETABLE SECURITIES

Consist of:

	December 31,	
	----- 1998 ----	1997 ----
	Adjusted NIS.	
(thousands)		

Shares	8,731	4,665
Convertible debentures	--	65
	----- 8,731	----- 4,730
	=====	=====

NOTE 5 - TRADE RECEIVABLES AND ACCOUNTS RECEIVABLE

	December 31,	
	1998	1997
	-----	-----
	Adjusted NIS.	
(thousands)		

A. Trade receivables		
Consist of:		
Customers - open accounts	500,992	427,486
Checks and notes receivable	41,396	48,072
Credit card companies	64,922	57,728
Short-term loans and current portion of long-term loans granted	26,108	10,595
Less - provision for doubtful receivables(*)	(12,952)	(13,306)
	-----	-----
	620,466	530,575
	=====	=====
 B. Accounts receivable		
Consist of:		
Fuel Authority	104,476	11,922
Government Institutions	--	364
Income receivable	25,725	29,071
Employees	677	896
Prepaid expenses	10,019	11,031
Income tax receivable	--	9,540
Future tax benefits, net(**)	6,602	6,589
Others	23,100	20,865*
	-----	-----
	170,599	90,278
	=====	=====

(*) See note 2.I

(**) See note 24.

C. Regarding credit risks see note 25.E.

NOTE 6 - INVENTORIES

Consist of:

	December 31,	
	----- 1998 -----	----- 1997 -----
	Adjusted NIS.	
(thousands)		

Crude oil and raw materials	40,318	52,893
Finished products	148,143	229,346
Materials and supplies	10,656	10,062
	-----	-----
	199,117	292,301
	=====	=====

* See note 19.

NOTE 7 - SUBSIDIARIES, AFFILIATED COMPANIES AND OTHERS

	December 31,	
	1998	1997
	-----	-----
	Adjusted NIS.	
(thousands)	-----	
Affiliated companies:		
Share at equity	26,000	33,107*
Goodwill and excess cost attributed, net (4)	86,338	95,968
Less: accumulated amortization	(1,285)	(5,122)
	-----	-----
Book value (1)	111,053	123,953
Long-term loans (3)	12,663	9,676*
Capital note and capital reserve, net of accumulated loss (2)	7,670	8,059
	-----	-----
	131,386	141,688
Others - cost less amortization (5)	24,254	21,516
	-----	-----
	155,640	163,204
	=====	=====

	December 31,	
	1998	1997
	-----	-----
	Adjusted NIS.	
(thousands)	-----	
(1) Cost of shares including retained earning as of December 31, 1991	7,346	7,346
Changes, beginning 1.1.92:		
Cost of shares acquired	129,076	127,354
Accumulated deficit (**)	(25,369)	
(11,144)*		
Changes in capital reserves	--	397
	-----	-----
Book value (***)	111,053	123,953
	=====	=====

* Reclassified

(**) Dividend received
in the current year

6,743	3,570
=====	=====

(***) Including securities quoted
on the Tel-Aviv Exchange:

Book value	88,239	87,112
	=====	=====
Market value	49,576	42,353
	=====	=====

(2) Capital note is unsecured and non-negotiable, linked to the Index, bears no interest and matures in the year 2001.

(3) The loans granted by a subsidiary to the affiliated company Otzem Promotion and Investments (1991) Ltd. ("Otzem") are index linked. The date of maturity is subject to the financial capabilities of Otzem. The balance of the loan is NIS. 6,240 thousand (after a cumulative amount of NIS. 7,462 thousand). The investment of the consolidated company in the shares of Otzem has been written off. (See note 23(3)b.).

NOTE 7 - SUBSIDIARIES, AFFILIATED COMPANIES AND OTHERS (CONTINUED)

(4) Includes goodwill not yet amortized in the amount of NIS. 6,818 thousand (1997 - NIS. 7,580 thousand).

(5) See note 23.(3)a.

(6) See also Note 3.A.5.

(7) The book value of the investments (approximately 10%) in Nitzba Holdings (1995) Ltd. (hereafter "Nitzba") is based on the estimated financial results of Nitzba for the year 1998, taking into consideration its results for the period of nine months ended on September 30, 1998. In the opinion of the Company's management, a possible deviation in the financial results of Nitzba as they will be reported, would not materially affect the Company.

(8) Changes in investments in affiliated companies and others.

(thousands)	Adjusted NIS.
Balance as at January 1, 1998	163,204
Changes during the year:	
Investments in shares	3,310
Long-term loans granted	3,895
Sales of investments	-
Equity loss, net	(9,361)
Dividend received	(6,743)
Other changes	1,335
Balance as at December 31, 1998	155,640 =====

NOTE 8 - LONG-TERM LOANS

a. Consist of:

(thousands)	December 31, 1998	1997
	Adjusted NIS.	
Loans to customers	106,493	93,059
Loans to employees	153	145
	106,646	93,204
Less: current portion	26,128	10,595
	80,518	82,609
	=====	=====
The years of maturity of the loans:		
First year - current portion	26,128	10,595
Second year	15,635	12,610
Third year	6,419	17,044
Fourth year	7,209	5,473
Fifth year	10,746	3,923
Sixth year and thereafter and without maturity date	40,509	43,559
	106,646	93,204
	=====	=====

NOTE 8 - LONG-TERM LOANS (CONTINUED)

b. Breakdown of loans by level of borrowers' balances:

Borrowers' balances (NIS. thousands) NIS. thousands	December 31, 1998		December 31, 1997	
	Number of loans	Total NIS. thousands	Number of loans	Total loans
Less than 100	108	4,416	131	6,503
100 - 500	29	8,155	25	8,068
500 - 1,000	14	8,661	11	8,258
Above 1,000	34	85,414	27	70,375
	185	106,646	194	93,204
	===	=====	===	=====

c. Linkage terms and interest rates:

	December 31, 1998						Total
	Unlinked		Linked to index		Linked to foreign currency		
Interest rates:	0%	10-20%	0-4%	4-10%	0%	5-9%	
	Adjusted NIS. (thousands)						
Loans to:							
Customers	4,980	8,085	44,176	38,720	5,716	4,816	
106,493							
Employees	--	--	153	--	--	--	
153							
	4,980	8,085	44,329	38,720	5,716	4,816	
106,646							
	=====	=====	=====	=====	=====	=====	
Less: current portion							
26,128							
80,518							
=====							

	December 31, 1997						Total
	Unlinked		Linked to index		Linked to foreign currency		
Interest rates:	0%	10-20%	0-4%	4-10%	0%	5-9%	
	Adjusted NIS. (thousands)						
Loans to:							
Customers	379	3,037	45,112	32,850	5,912	5,769	
93,059							
Employees	-	--	145	--	--	--	
145							
	379	3,037	45,257	32,850	5,912	5,769	
93,204							
	=====	=====	=====	=====	=====	=====	
Less: current portion							
10,595							
82,609							
=====							

d. Regarding credit risks see note 25.E.

NOTE 9 - FIXED ASSETS

a. Consist of:

	Land and Buildings	Machinery and Equipment Adjusted	Vehicles NIS. (thousands)	Others	Total
Cost					
Balance at beginning of year 1,495,612*	560,281	806,814	52,117	76,400	
Additions	47,292	49,601	6,491	7,386	110,770
Disposals (30,002)	(15,006)	(8,787)	(6,207)	(2)	
Balance at end of year 1,576,380*	592,567	847,628	52,401	83,784	
Accumulated depreciation					
Balance at beginning of year	169,766	551,273	32,908	46,500	800,447
Depreciation charged	15,665	52,839	6,201	5,564	80,269
Depreciation in respect of disposals (10,372)	--	(5,698)	(4,674)	--	
Balance at end of year	185,431	598,414	34,435	52,064	870,344
Depreciated balance as of December 31, 1998	407,136 =====	249,214 =====	17,966 =====	31,720 =====	706,036 =====
Depreciated balance as of December 31, 1997	390,515 =====	255,541 =====	19,209 =====	29,900 =====	695,165 =====

(*) Net of investment grants in the amount of NIS. 16,052 thousand.

b. Land and buildings include buildings on lease-hold lands, the cost of which is NIS. 235,725 thousand, for various original periods of 49 - 98 years, ending in the years 1999 - 2072. Land and buildings at a cost of NIS. 238,772 thousand have not yet been registered in the name of the Company or consolidated subsidiaries in the Land Registry Office. The main reason for the lack of registration is that the land settlement and sub-division process has not yet been completed.

c. Commitments and contingent liabilities - See note 25.

NOTE 10 - INTANGIBLE ASSETS AND DEFERRED CHARGES, NET**Consist of:**

	Balance to be amortized	
	as of	December 31,
	1998	1997
	Adjusted NIS.	
(thousands)		
Intangible assets:		
Deferred rent	29,577	28,499
Goodwill in consolidated subsidiaries (1)	5,784	7,010
Others	14,739	11,903
	50,100	47,412
Deferred charges:		

Expenses incurred in the issuance of debentures by the Company (2)	1,045
4,323	
Expenses incurred in the issuance of debentures by a consolidated subsidiary (2)	--
79	
	51,145
51,814	
Less: Deferred credit in a consolidated subsidiary (1)	829
1,686	
	50,316
50,128	
Long-term future tax benefits (see note 24)	3,738
4,067	
	54,054
54,195	
	=====
=====	

(1) For amortization see note 2.B.2

(2) For amortization see note 2.F.

NOTE 11 - CREDITS FROM BANKS AND OTHERS

Linkage terms and interest rates:

	Unlinked	December 31, 1998 linked to Index 2-6% Adjusted NIS.	December 31, 1998 Linked to foreign currency 5.4-7.0% (thousands)	Total
Interest rates:	13.7-18.0%			
Overdrafts	4,611	--	--	
4,611				
Short-term loans	752,115	--	209,248	
961,363				
Current portion of long-term loans	24	92,686	36	
92,746				
Total credits from banks	756,750	92,686	209,284	
1,058,720				
Credits from others (related party)	--	5,573	--	
5,573				
	756,750	98,259	209,284	
1,064,293				
	=====	=====	=====	
=====				

	Unlinked	December 31, 1997 linked to Index 2-4.75% Adjusted NIS.	Linked to foreign currency 6.2-7.2% (thousands)	Total
Interest rates:	13.7-17.9%			
Overdrafts 1,692	1,692	--	--	
Short-term loans 412,797	377,077	--	35,720	
Current portion of long-term loans 71,589	22	70,937	630	
Total credits from banks 486,078	378,791	70,937	36,350	
Credit from others (related party) 2,798	--	2,798	--	
488,876	378,791	73,735	36,350	
=====	=====	=====	=====	

NOTE 12 - TRADE PAYABLES

The liabilities represent open amounts and include NIS. 13,133 thousand (1997 - NIS.2,585 thousand) balances of related and interested parties.

NOTE 13 - ACCOUNTS PAYABLE

31,	December 31,	December
	1998	1997
	Adjusted NIS.	(thousands)
Liabilities to employees and other salary related liabilities	30,186	24,641
Institutions	58,227	39,357
Accrued expenses	32,794	20,972
Income tax payable	8,495	--
Others	15,372	13,257
	145,074	98,227
	=====	=====

NOTE 14 - LONG-TERM LIABILITIES

A. Long-term loans

31,	Rate of	December 31,	December
	interest	1998	1997
	%	Adjusted NIS.	(thousands)
U.S. Dollar loans from banks	7.0	39	1,818
Index linked loans from banks	4.7-5.3	93,317	163,812
Customers' deposit - linked to the index	--	3,027	2,985
Customers' deposit - linked to foreign currency	--	18	66
Unlinked loans from banks	16.8	46	73
Other loans - linked to the Index	--	263	263
		96,710	169,017
Less: current portion		92,746	71,589
		3,964	97,428
		=====	=====

Yearly installments:

31,	December 31,	December
	1998	1997
	Adjusted NIS.	(thousands)
First year - current portion	92,746	71,589
Second year	188	92,936
Third year	150	249
Fourth year	158	224
Fifth year	161	224
No due date	3,307	3,795
	3,964	97,428
	96,710	169,017
	=====	=====

Accrued interest is included in "Accounts payable" in Current liabilities.

NOTE 14 - LONG-TERM LIABILITIES (CONTINUED)

B. Debentures convertible into shares of the Company

	December 31,	December
31,	1998	1997
	Adjusted NIS.	(thousands)
Debentures (Series 1)(*)	45,734	57,466
Debentures (series 2)(**)	11,163	154,771
	56,897	212,237
Less - current portion	14,224	42,448
	42,673	169,789
	=====	=====

Yearly installments:

	December 31, 1998		December 31,	
1997	Series 1	Series 2	Series 1	Series
2	Adjusted NIS. (thousands)			
First year - current portion	11,433	2,791	11,493	
30,955				
Second year	11,433	2,791	11,493	
30,955				
Third year	11,434	2,791	11,493	
30,955				
Fourth year	11,434	2,790	11,493	
30,953				
Fifth year	-	-	11,494	
30,953				
	34,301	8,372	45,973	
123,816				
	45,734	11,163	57,466	
154,771	=====	=====	=====	
=====				

(*) Registered debentures (Series 1) NIS. 1.- par value each.

Every NIS. 55.- par value of debentures are convertible into 10 ordinary shares NIS. 1.- par value each. The debentures bear interest at an annual rate of 0.1%. The principal, interest and the price for conversion into ordinary shares are linked to the representative rate of exchange of the U.S. dollar and are payable in 4 equal annual installments on November 30 in each of the years commencing in 1999 and ending in 2002. In the current year 2,236,025 debentures (series 1) were converted into shares . As of the balance sheet date, there were 25,263,877 outstanding debentures. The market value of the debentures, as their price was quoted on the Stock Exchange, was NIS. 40,372 thousand at the balance sheet date.

NOTE 14 - LONG-TERM LIABILITIES (CONTINUED)

(**) Registered debentures (Series 2) NIS. 1.- par value each.

Every NIS. 5 par value of debentures are convertible into an ordinary share of NIS. 1.- par value. The debentures bear interest at an annual rate of 2.5%. The principal, interest and the price of conversion into ordinary shares are linked to the representative rate of exchange of the U.S. dollar and are payable in 4 equal annual installments on November 30 in each of the years commencing in 1999 and ending in 2002. In the current year 79,308,820 debentures (series 2) were converted into shares. As of the balance sheet date, there were 6,716,869 outstanding debentures. The market value of the debentures, as their price was quoted on the Stock Exchange, was NIS. 10,136 thousand at the balance sheet date.

Accrued interest is included in "Accounts Payable" in current liabilities.

See also Note 18.a. Regarding collaterals see Note 25.

The above debentures are traded on the Tel-Aviv Stock Exchange.

C. Debentures convertible into shares of a subsidiary

	December 31,	December
	1998	1997
	Adjusted NIS.	(thousands)
31,		
Debentures (Series 1)	--	2,410
Less - current portion	--	2,410
	--	--
	=====	=====

The debentures were redeemed on December 26, 1998.

NOTE 15 - CUSTOMERS' DEPOSITS

a. Customer deposits of Supergas as of December 31, 1998 are calculated on the basis of the expected rate of price updating and according to the request of the said company from the Ministry of Industry and Commerce for updating. The updated rate for 1998 is 12.77% (previous year 5%). The deposits are calculated on the basis of their present value at the annual discount rate of 2.75% (previous year - 1.75%).

b. Customers' deposits include NIS.41,213 thousand (December 31, 1997 - NIS. 44,834 thousand) of linkage increments accrued on those deposits (Note 2.L.).

NOTE 16 - LIABILITIES FOR EMPLOYEE RIGHTS UPON RETIREMENT, NET

	December 31,	December
	1998	1997
	Adjusted NIS.	(thousands)
31,		
Provision for severance pay, net (a)	7,673	6,061
Less: deposits in approved funds (*)	1,153	1,858
	6,520	4,203
Provision for early retirement pension (**)(b)	5,583	5,559
Provision for redemption of unutilized sick leave (c)	2,060	2,081
	14,163	11,843
	=====	=====

(*) The deposits can be withdrawn subject to law. Accrued income on the deposits is included in the statements of income.

(**) Excluding NIS. 2,079 thousand (1997 - NIS. 1,907 thousand) current portion of early retirement pension payable which is included in "Accounts payable."

a. The liabilities of the Company and its subsidiaries in respect of pension and severance indemnities are fully covered by provisions for severance indemnities, by deposits in approved funds and in managers' insurance policies. The deposits in approved funds and in manager's insurance plans are not included in the financial statements as they are not under the control of the Company.

b. The provision for pension benefits for early retirement of employees is computed at the discounted present value of the future liabilities of the Company for such retired employees. The Company's liability for early retirement is up to the date when the employee reaches retirement age and is computed as a fixed percentage of pensionable salary due to the employee from the pension fund upon retirement. The rate of discount for computing the provision is 6% per annum (previous year 4.5%).

c. In accordance with the labor agreements between subsidiaries and their employees, retiring employees (men at age 65 and women at age 60 - 65) are entitled to receive a partial redemption of unutilized sick leave, subject to a ceiling of 50 working days. A provision based on an actuarial calculation has been made in the financial statements for covering the aforesaid liability. The actuarial calculation is based, inter alia, on a discount rate of 3%.

NOTE 17 - LINKAGE OF MONETARY BALANCES

	December 31, 1998			December 31, 1997		
	Linked to index Adjusted NIS.	Linked to foreign currency (thousands)	Unlinked (**)	Linked to index Adjusted NIS.	Linked to foreign currency (thousands)	Unlinked (**)
Assets:						
Cash and cash equivalent	--	6,138	3,622	--	4,588	3,945
Marketable securities	--	--	8,731	65	--	4,665
Trade receivables	18,460	47,473	554,533	7,902	34,559	488,114
Accounts receivable	2,550	106,205	45,223	17,402	13,951	41,305*
Investment in capital notes and loans	20,333	--	--	17,735*	--	--
Long-term loans	64,263	10,366	5,889	68,904	10,700	3,005
	105,606	170,182	617,998	112,008	63,798	541,034
	=====	=====	=====	=====	=====	=====
Liabilities:						
Credits from banks and others	5,573	209,248	756,726	2,798	35,720	378,769
Trade payables	1,028	22,397	51,244	2,922	5,961	47,796*
Accounts payable	32,378	4,279	108,417	21,557	7,221	69,449
Long-term liabilities and debentures (including current portion)	96,607	56,954	46	169,470	214,121	73
Customers' deposits(**)	63,252	--	--	67,314	--	--
Capital notes	--	--	215	--	--	234
	198,838	292,878	916,648	264,061	263,023	496,321
	=====	=====	=====	=====	=====	=====

(*) Reclassified

(**) Partly bearing interest.

(***) Against the Customers' deposits, Supergas holds fixed assets on loan to its customers, which are adjusted to the Index in the financial statements. Regarding the linkage of Customers' deposits - see Note 15.

Against the excess of foreign currency linked liabilities over assets in the amount of NIS. 122,700 thousand, Sonol holds fuel and refined products inventory amounting to NIS. 147,900 thousand, which is mainly Emergency Inventory valued according to the changes in the rate of exchange of the U.S. dollar as explained in note 2.C.1.

NOTE 18 - CAPITAL

a. Nominal values.

Consist of:

	Authorized December 31,		Issued and Paid December 31,*	
	1998	1997	1998	1997
	NIS. (thousands)		NIS. (thousands)	
225,000,000 Ordinary shares of NIS. 1.- each	225,000	225,000	138,943	
122,674				
=====	=====	=====	=====	

* 138,942,790 ordinary shares (1997 - 122,674,476 ordinary shares). The share capital increased by conversion of debentures into shares. See note 14.B.

b. Earnings per ordinary share

1. The net income used in computing earnings per NIS. 1.- par value of shares:

	Year ended December 31,		
	1998	1997	1996
	Adjusted NIS. (thousands)		
Net income per Statements of Income	58,725	55,494	58,832
Add - Profit resulting from conversion of debentures (series 1 and 2)	9,807	--	--
The net income used in computing primary earnings per share	68,532	55,494	58,832
Add (Deduct) - theoretical income (loss) deriving from:			
Exercise of options (series 2)(*)	--	--	10,964
Conversion of debentures (series 1) (2,608)	--	1,341	
Conversion of debentures (series 2) (4,317)	--	5,985	
Net income used in computing diluted earnings per share	68,532	62,820	62,871
	=====	=====	=====

* Expired on February 28, 1997. (The balance of stock options outstanding on December 31, 1996 was 39,984,108 options).

NOTE 18 - CAPITAL (CONTINUED)

2. The par value of shares used in computing earnings per NIS.

1.- par value share:

	Year ended December 31,	
	1998	1997
-----	-----	-----
1996	-----	-----
-----	-----	-----
	Adjusted NIS. (thousands)	

Share capital used in computing primary earnings per share 122,674	138,943	122,674
Add - theoretical share capital that may derive from:		
Exercise of options (series 2) (see 1.above)	--	--
39,984		
Conversion of debentures (series 1) 7,500	--	6,250
Conversion of debentures (series 2) 24,201	--	20,168
The total shares used in computing -----	-----	-----
diluted earnings per share 194,359	138,943	149,092
=====	=====	=====

3. For examining the probability of conversion or exercise of convertible securities, the present value was computed using a discount rate 6% (12.97 - 4.5%, 12.96 - 4.5%) for securities linked to the Index and 5% (12.97 - 6% 12.96 - 5.5%) for securities linked to the exchange rate of the U.S. dollar.

NOTE 19 - COST OF SALES

Consist of:

	Year ended December 31,		
	1998	1997	1996
	Adjusted NIS. (thousands)		
Petroleum products and other materials used*	1,172,700	1,423,651	1,516,962
Labor and sub-contract work	13,809	18,383	18,941
Production costs	102,720	91,955	64,119
Depreciation	3,518	4,148	3,870
Batteries	17,100	14,843	17,226
	-----	-----	-----
Total cost of sales	1,309,847	1,552,980	1,621,118
	=====	=====	=====
Decrease in inventories (20,263)	(92,632)	(55,586)	
	=====	=====	=====

(*) Financing income deriving from the erosion of dollar linked credit used as a source of financing purchases of oil inventories is included in Cost of Sales.

NOTE 20 - SELLING AND MARKETING EXPENSES

Consist of:

Year ended December 31,

	1998	1997
-----	-----	-----
1996		

	Adjusted NIS. (thousands)	

Salaries	86,419	75,407
70,062		
Advertising and promotion	12,609	15,856
14,888		
Depreciation and amortization	74,441	70,610
68,070		
Maintenance of buildings, plants and filling stations	26,926	30,372
32,059		
Rent	47,191	40,401
40,886		
Other expenses	65,507	49,240
50,995		
-----	-----	-----
276,960	313,093	281,886
=====	=====	=====

NOTE 21 - GENERAL AND ADMINISTRATIVE EXPENSES

(1) Consist of:

	Year ended December 31,	
	1998	1997
-----	-----	-----
1996		

	Adjusted NIS. (thousands)	

Salaries	39,719	32,004
31,661		
Depreciation and amortization	3,900	4,157
3,817		
Consulting, legal and audit	7,521	6,881
6,455		
Provision for doubtful accounts		
and bad debts	4,416	5,872
2,547		
Other expenses	13,160	12,579
11,588		
-----	-----	-----
	68,716	61,493
56,068		
-----	-----	-----
	=====	=====

(2) Costs of adjustment of computer system to the year 2000

The costs of adjustment of computer systems to the year 2000 for consolidated companies and the Company are estimated in the amount of NIS. 540 thousand.

Costs for the above, charged as current expenses during the year, amount to NIS. 130 thousand. See also Note 2.O.

NOTE 22 - FINANCING INCOME (EXPENSES), NET

Consist of:

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
	Adjusted NIS. (thousands)		
	-----	-----	-----
Dollar linked debentures			
convertible to shares	(23,655)	(10,427)	11,844
Long-term debt	3,311	3,546	3,719
Profit(loss) from securities, net	(2,481)	1,634	1,111
Financing income from			
other receivables	14,712	14,257	16,604
Erosion of other monetary			
assets and liabilities, net	(13,928)	(34,965)	
(54,765)			
	-----	-----	-----
	(22,041)	(25,955)	
(21,487)			
	=====	=====	=====

NOTE 23 - OTHER INCOME, NET**Consists of:**

	Year ended December 31,	
	1998	1997

1996	----	----

	Adjusted NIS. (thousands)	

Rent	5,662	5,573
4,676		
Dividends received	1,089	1,050
976		
Management fee	6,835	7,102
2,331		
Income from construction projects:		
Financial income (1)	130	2,781
--		
Income from the project (2)	1,440	7,188
--		
Investment in and loan to affiliated companies written off (3)	(1,257)	(9,111)
--		
Proceeds from sales of part of land (see note 25.C.2.e)	9,562	--
--		
Expenses regarding strike in a consolidated company	(2,125)	--
--		
Others	(2,274)	97
634		

	19,062	14,680
8,617	=====	=====
=====		

(1) The income results as a consideration for a guarantee given by a consolidated subsidiary in favour of a bank that granted a loan to a third party for financing a building project of residential housing. The income is taken into account concurrently with the progress of the project which is at its final stages of completion.

(2) In the year 1997 an agreement was signed between a consolidated subsidiary together with its partners in the project known as "Rubinstein Towers" and Revadim (Properties) Ltd. (hereafter - Revadim), a subsidiary of Bank Hapoalim Ltd., according to which Revadim acquired a material part of the land and building in the project. The building was in its final stages and has been transferred to Revadim as at the end of 1997 (the registration in the Land Registry Office has not yet been completed). The subsidiary company included in its financial statements the above income after taking into account provisions needed, according to the opinion of the management of the company, for completion of the project.

(3) Consists of:

a. Decrease in write-off of investment presented at cost (14%) in the amount of NIS. 1,152 thousand resulting from a increase in value (1997 - write off NIS. 3,738 thousand, 1996 - NIL).

b. Provision for the decrease in value of loans granted to and investments in an affiliated company (50%) in the amount of NIS. 300 thousand (1997 - 5,373 thousand, 1996 - NIL).

c. Provision for decrease in value of loans granted and investments in an affiliated (50%) in the amount of NIS. 2,109 thousand (1997 and 1996 - NIL).

NOTE 24 - TAXES ON INCOME

a. The Company and most of its subsidiaries are taxed under the Income Tax Law (Inflationary Adjustments) - 1985, effective as of the tax year 1985, which introduced the measurement of results for income tax purposes in real terms. The various adjustments required by the above mentioned law are made in order to align taxation to a real income basis. Nevertheless, the adjustments of the nominal income according to the Income Tax Law are not always identical to the inflationary adjustments made in the financial statements in accordance with the opinion of the Institute of Certified Public Accountants in Israel. As a result, differences arise between the adjusted income in the statement of income and the adjusted income for income tax purposes. Regarding deferred taxes for these differences, see Note 2.J.

The subsidiary, Vulcan, having the status of an approved enterprise, is entitled to a reduced income tax rate in accordance with the Law for the Encouragement of Capital Investments - 1959. The period of benefits relating to a part of its production facilities has ended and for the remaining facilities, the period of benefits will end in the year 2001. As of the date of the financial statements, Vulcan received final letters of approval for all the investment plans which it has carried out.

b. Deferred taxes

The deferred taxes are regarding:

	Depreciable fixed assets	Deductions and losses carry forward for tax purposes	Liabilities for employee rights upon retirement	Others	Total
	Adjusted NIS. (Thousands)				
Balance as of January 1, 1997	(22,436)	321	8,342	15,772	1,999
Changes in 1997:					
Current*	5,848	440	1,047	(616)	6,719
Regarding previous years	1,938	--	--	--	1,938
Balance as of December 31, 1997	(14,650)	761	9,389	15,156	10,656
Changes in 1998:					
Current (165)	2,725	(271)	740	(3,359)	
Regarding previous years (151)	--	--	--	(151)	
Balance as of December 31, 1998	(11,925)	490	10,129	11,646	10,340

* Includes NIS. 463 thousand accumulated as of the date of acquisition of an initially consolidated subsidiary.

NOTE 24 - TAXES ON INCOME (CONTINUED)

The deferred taxes are presented in the balance sheet as follows:

31,	December 31,	December
-----	1998	1997
-----	-----	
	Adjusted NIS. (thousands)	
Future tax benefits - in current assets	6,602	6,589
Future tax benefits - long-term -in "intangible assets and deferred charges, net"	3,738	4,067
	-----	-----
	10,340	10,656
	=====	=====

c. The provision for taxes on income in the statements of income consists of:

	Year ended December 31,		
	1998	1997	1996

	Adjusted NIS. (thousands)		

Current taxes including inflationary erosion of advance tax payments	46,343	44,675	45,058
Deferred taxes, net (3,226)	316	(8,194)	
	-----	-----	-----
	46,659	36,481	41,832
Provisions (Overprovisions) pertaining to prior years	113	(1,277)	(378)
	-----	-----	-----
	46,772	35,204	41,454
	=====	=====	=====

d. Final tax assessments:

Supergas has received final tax assessments through the tax year 1994 and Vulcan has received final tax assessments through the tax year 1997. Sprint has received final tax assessments through the tax year 1996. The Company, Aloc, Sonapco, Chem Ami and Yad Mordechai have received final tax assessments through tax year 1991. Sonol has received final tax assessments through the tax year 1990.

e. Reconciliation between the theoretical tax on the reported income and the tax on income included in the statements of income:

	Year ended December 31,		
	1998	1997	1996
Statutory rate of tax	36%	36%	36%
	Adjusted NIS. (thousands)		
The theoretical tax at the applicable tax rate	41,727	32,666	36,440
Erosion of advanced tax payments	1,266	1,037	1,696
Differences in the definition of capital and assets for tax purposes and others, net	3,666	2,778	3,696
Overprovisions in respect of prior years (378)	113	(1,277)	
	46,772	35,204	41,454

NOTE 25 - COLLATERALS, COMMITMENTS AND CONTINGENT LIABILITIES

A. Floating and fixed charges:

	December 31, 1998 ----- Adjusted NIS. (thousands) -----	Collateralized by -----
Short-term bank credits	4,611	Floating charges on current assets of the main subsidiaries.
Short-term Loans from banks	961,363	Floating charges on current assets of Sonol.
Accounts payable and credit balances including interest on short-term loans	3,662	Floating charges on current assets of Sonol
Long-term bank loans	93,402	Floating charge on current assets of Sonol, Sonol Shani Agencies Ltd., fixed charges on all the assets of Vulcan and fixed charges on part of the fixed assets of Milchen Sonol Agency Ltd., Sonol Dan Ltd. and Motoricka Ltd.
Investment grants of been	--	Floating charges on all Vulcan's assets guaranteeing the fulfillment the terms related to the receipt of such grants. Although final approval has been received the charges have not yet cancelled.
Convertible debentures (Including interest)	56,924	Floating charge subordinated to other floating charges on all the assets of the Company.

NOTE 25 - COLLATERALS, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

B. Liabilities and contingencies:

1. Indemnification and Insurance of directors and senior officers

The Articles of Association of the Company enable the indemnification and insurance of directors and senior officers according to the law. The Company insures, subject to provisions of the law, the directors' and senior officers' liability.

2. Pending litigation

a. Claims (mainly legal claims) arising in the normal course of business have been lodged against subsidiaries and affiliated companies. Regarding part of the said claims appropriate provisions have been made. In the opinion of the companies' managements, based on the opinions of legal counsel, the provisions made are sufficient.

b. A claim has been submitted against Sonol by a customer owning land leased to Sonol on which a filling station was built, the substance of which is the cancellation of all agreements between Sonol and the plaintiff and a monetary claim against Sonol in the amount of approximately NIS. 6 million. In the opinion of Sonol's legal counsel, the claim's prospects (as far as the monetary claim is concerned) are weak.

c. As a result of arbitration proceedings between the Fuel Authority and the Agents' organization and station owners, in which Sonol was not a party, the arbitrator ruled that the Fuel Authority is to reimburse the station owners for the depreciation on their investments in stations. The arbitrator's ruling was confirmed by the district court. The Fuel Authority, in turn, demanded that the fuel marketing companies reimburse the station owners for the depreciation (to the extent payable) since it claims that the depreciation component was previously recognized by the Fuel Authority within the framework of the Price Structure. In the opinion of Sonol's legal counsel, there is no basis for the Fuel Authority's demand. In accordance with the arbitration ruling, twenty five third party proceedings have been filed by the Government against Sonol regarding claims filed against the Government by station owners for the reimbursement of the investment in the construction of stations. The total amounts to NIS. 39 million and, in the opinion of the company's legal counsel, there is no basis for these claims as far as they relate to Sonol.

d. Three claims were lodged against an affiliated company and against its shareholders, which include Sonol. The total amount of the claims is approximately NIS. 59.4 million relate to the sale of fuel products pursuant to restrictive trade practices (as the plaintiff alleges) among the fuel companies. In the opinion of the legal counsels of Sonol and the affiliated company, the companies have a sound defense against the claims.

NOTE 25 - COLLATERALS, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

e. A filling station operator, who received operating rights within the framework of an arrangement between invalids and the rehabilitation department of the Ministry of Defense, the Israel Lands Authority and the fuel companies, has filed a claim in court against Sonol for a ruling declaring the cancellation of agreements between him and Sonol, claiming them to be restrictive trade agreements in accordance with the Law for Restrictive Trade Agreements. In the opinion of Sonol's legal counsel, it is too early to determine the defense's prospects at this early stage of deliberations.

f. On December 10, 1998 the owners of one of Sonol's agencies filed a claim against Sonol in the amount of approximately NIS. 30 million on account of various losses incurred, in their opinion, as a result of Sonol's stopping to supply them with fuel products and on account of other obligations that Sonol did not fulfill. The owners have asked the court to declare all agreements entered into between them and Sonol null and void. Sonol, on January 10, 1999 filed its defense in which it denied and refuted all the plaintiff's claims. In Sonol's estimation, the Agency's owners' chances of success are not high and Sonol has a reasonable chance of defending its position.

On January 21, 1999 Sonol filed a claim against the owners of the same Agency in the amount of approximately NIS. 31 million on account of the non-payment of amounts due on account of fuel products supplied to them, compensation on account of various damages incurred, and also asked the court to enforce a memorandum of agreement signed by the parties on March 22, 1998. On February 8, 1999 Sonol filed an additional, separate claim in the amount of approximately NIS. 6.7 million against the owners of the agency on account of an unpaid balance of a loan. At this time, the defendants have not submitted their defense, and therefore, it is difficult to estimate the chances of success of the first claim, while there appears to be a good chance of success in the second claim.

g. A request for approval by the court of a law suit as a class action for payment of compensation was filed against the consolidated company Supergas, Pazgas (1993) Ltd. and Amisragas, the American Israeli Gas Corporation Ltd.

The suit involves two main claims raised by the plaintiffs - the Consumer Protection Authority and three customers. The first - that the gas companies marketed to customers gas in cylinders in lesser quantities than the quantities declared with respect to two types of common cylinders (13 and 48 Kilogram), the second - that at the time the cylinders are returned to the gas companies, unused quantities of gas remain in the cylinders and, despite this, the gas companies do not credit the customers for the returned gas. The plaintiffs did not specify the precise amounts they are claiming, but they estimated that the amount of the claim against all the gas companies for the last 10 years totals approximately NIS. 3 billion. The plaintiff's motion for court approval as a class action was denied.

NOTE 25 - COLLATERALS, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

h. A group of greenhouse owners, claiming damage caused to them in the amount of approximately NIS. 7.6 million as a result of using defective light fuel oil produced by the Oil Refineries Ltd. and sold to them by the oil marketing companies, has filed a claim against the consolidated company, Sonol Israel Ltd., Oil Refineries Ltd., Paz Oil Company Ltd., Delek the Israel Fuel Corporation Ltd. and Alon Israel Oil Company Ltd. In the opinion of Sonol's Management, Sonol has a sound defense against this claim and has, in addition, insurance coverage included in a product liability policy.

i. Two filling station owners have filed claims in court against the consolidated company, Sonol, in the amount of approximately NIS. 10 million, claiming that the Company owes them commission differentials on account of prior years. At this time, it is too early to estimate the prospects of the success of these claims.

C. The consolidated subsidiary companies are committed as of balance sheet date as follows:

1. Commitments: (thousands)	Adjusted NIS.

Acquisition of fixed assets	300,844
Suppliers of fuel, luboils and parts	88,387
Rental leases and obligations in accordance with signed agreements with agencies for the use of their outlets for marketing Sonol's products over various periods(*)	461,511
Acquisition and maintenance of a computer and other equipment over periods of up to five years	2,559
(*) The rental liability for each of the years following December 31, 1998 is as follows:	
1999	39,942
2000	38,116
2001	29,924
2002	27,640
2003	26,227
2004 and thereafter	299,662

	461,511
	=====

2. Commitments for investments:

a. In 1996 a consolidated company signed an agreement for its participation in a limited partnership to establish a tourist attraction. The investment by the consolidated subsidiary (including loans and guarantees) is expected to reach an amount of up to NIS. 17,500 thousand linked to the representative rate of the U.S. dollar, for which it will obtain a 35% share in the limited partnership. As of the balance sheet date, the Company invested approximately NIS. 2,800 thousand.

NOTE 25 - COLLATERALS, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

b. In 1997, a consolidated company, signed an agreement to invest in a venture capital fund the amount of approximately NIS. 5,000 thousand. As of the balance sheet date, the company has invested approximately NIS. 1,900 thousand.

c. In 1997, a consolidated company signed an agreement to acquire rights to land and a building to which its offices will be relocated. The company committed itself to invest NIS. 21,700 thousand, of which approximately NIS. 18,400 thousand has been paid as of the balance sheet date.

d. In 1998, a consolidated company entered into an agreement to invest approximately NIS. 2,000 thousand in a venture capital fund. As of the balance sheet date, NIS. 360 thousand has been invested.

e. In 1998, a consolidated company entered into an agreement to sell 50% of its rights in a plot of land situated in Tel-Aviv for an amount of NIS. 30,600 thousand, linked to the Consumer Price Index. The balance not yet received as of the balance sheet date amounts to approximately NIS. 14,000 thousand. The Company also signed an agreement with the buyer to construct a joint building project on the land. The project will include, inter alia, a 20 story office building covering an area of approximately 23,000 m. and underground parking facilities. The project is currently in the planning stages and agreements with building contractors have not yet been signed. In addition, the Company signed an agreement whereby it agreed to pay approximately NIS. 11.3 million, linked to the Consumer Price Index, to the city of Tel-Aviv.

3. Other commitments

On June 1, 1998 the Company signed a Financial Incentive ("award") Agreement with its senior managers based on the appreciation in the value of the Company's common stock.

The award program is a cash payment for the appreciation in the value of approximately 2.3 million of the Company's common stock (correct as of December 31, 1998 after adjustment for convertible securities).

The appreciation in value of the common stock is computed according to the difference between the price of shares on the stock exchange at the date of the manager's notice of the exercise of his right, and between the stipulated basis price of the shares (471 points), as adjusted for the Consumer Price Index known on the date of exercise of the right.

The basis price and the number of shares in the program are subject to adjustments for distribution of bonus shares, conversion of convertible securities, exercise of rights by common shareholders, merger or dissolution of the Company and distribution of dividends.

Pursuant to the Agreement, the award is granted in three installments. Up to December 31, 1998, the right of the managers to exercise two portions was vested, and of which notice to exercise the rights for one portion was given. The right to exercise the final portion will commence December 31, 1999.

NOTE 25 - COLLATERALS, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Compensation expenses related to the award program are recorded in the profit and loss statement on the accrual basis for each of the portions according to the vesting period from the date of the Agreement and until the date of the vesting of the right to exercise. The amount recorded as compensation expense as of the balance sheet date was NIS. 4,982,000. The unrecorded amount relating to the balance of the vesting period, based on the price of the shares and the number of shares outstanding as of December 31, 1998, totalled NIS. 896,000.

D. The consolidated subsidiaries have contingent liabilities as of the balance sheet date in respect of:

(thousands)	Adjusted NIS.

1. The consolidated subsidiary Supergas has given a guarantee in favor of a bank regarding a loan given by the bank to a partnership (in which Supergas is a partner). The loan has been repaid, but the guarantees have not yet been cancelled	--
2. Various guarantees.	5,538
3. Sonol is a guarantor to a bank for loans granted by the bank to a filling station owner who has leased the station to Sonol.	3,453
4. Sonol is a guarantor to a bank on account of a loan granted by the bank to one of Sonol's agencies.	972
5. Sonol has given a guarantee to one of its customers on account of a tender for the supply of fuel products.	2,000
6. Vulcan has given a guarantee to a government agency assuring the supply of its products. The guarantee is collateralized by a floating charge on all the assets of Vulcan.	330
7. Sonol is a guarantor to a bank on account of a loan granted by the bank to an affiliated company for financing acquired equipment.	832
8. Sonol has guaranteed compensation to one of its suppliers for any damages caused to the supplier as a result of the temporary remedy given to Sonol by the court, if it becomes evident that there was no basis for Sonol's request from the court.	1,170
9. Sonol is a guarantor to a bank in respect to an agreement entered into with the city of Tel-Aviv	3,046
10. The Company is a guarantor to a bank on account of its part in a consortium which will compete in a tender offer for the building of a power plant	1,830

NOTE 25 - COLLATERALS, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

11.	Sonol is a guarantor to a bank on account of a loan taken by one of its affiliated companies.	1,150
12.	As part of legal proceedings currently being heard against customers of a subsidiary company regarding the collection of open balances, the court has required that such subsidiary provide suitable guarantees	Unlimited
	amount	
13.	The consolidated company, Granite Hacarmel Properties (1993) Ltd., has given a guarantee to a Government agency guaranteeing the payment of all debts relating to the sale of a plot of land	4,415
14.	Guarantees given to Customs and Excise Department for payment of customs duty, purchase and other taxes that may be due to that Department by the Company, Sonol and a related Company.	Unlimited
	amount	

E. Credit Risks

1. The maximal credit risks of the Company regarding its financial assets do not exceed the book value of the financial assets less the existing collaterals held by the Company.

2. Concentration of credit risks are created by the fact, that the consolidated company's customers and long-term receivables (long-term loans granted) are of similar character (independent fuel agencies). The highest balance is that of an agent whose current balance (included in trade receivables) and whose long term balance (included in long-term loans) total approximately NIS. 55 million. Against a portion of amounts due from customers, the Company has collateral as is acceptable in the industry. The financial statements include specific provisions for receivables the collection of which is doubtful in the opinion of the management.

F. Uncertainty resulting from modifying of computer systems to the year 2000

The issue of the year 2000 derives from the design of many computer systems allotting two places instead of four in identifying the year. In relating to dates, systems might identify the year 2000 as the year 1900 or any other date, thus causing mistakes in processing data in the year 2000. In addition, similar problems may arise in systems using various dates in the year 1999 to reflect items other than the date. Effect of the year 2000 issue may occur prior to, on or after January 1, 2000. Inadequate attention to the aforesaid problems may influence the activities of the Company and affect financial reporting. The magnitude of the problem will vary with the circumstances and may manifest itself as insignificant mistakes or in the collapse of whole systems which may affect the organization's ability to continue normal operations. There is no way to ascertain that a complete solution to all aspects of the year 2000 issue affecting the organization will be found including those relating to the efforts of customers, suppliers or other outside parties.

NOTE 26 - RULING BY THE CONTROLLER OF RESTRICTIVE TRADE PRACTICES AND PROPOSED LAW FOR THE FUEL SECTOR

A. Sonol and Delek, the Israel Fuel Corporation Ltd.(hereinafter "Delek") jointly own the rights to "Dalkan 2000", a computerized system for marketing fuel products (primarily to automobile fleets). On January 26, 1997, the Controller of Restrictive Trade Practices ruled that the joint marketing arrangement of the "Dalkan 2000" system by Sonol and Delek is a restrictive trade agreement. As a result of the position taken by the Controller, both Sonol and Delek agreed to separate the "Dalkan 2000" system between themselves so that each company will operate an independent system in a manner that will enable customers, in accordance with their own preference, to enter into an agreement with either of the companies. The separation agreement was implemented during 1998.

B. A private legislative proposal dealing with the shortening of the terms of exclusive agreements entered into between the fuel marketing companies and filling station owners and operators passed its first reading in the previous Knesset. The Economics Committee of the current Knesset decided that the rule of "Continuity" will be in effect regarding this proposal, and to initially require the legislation of rules regarding future commitments of the fuel companies with filling station owners and only, thereafter, to deal with the issue of exclusive agreements entered into in the past. Subsequently, the Law of the Fuel Economy (Promotion of Competition (Correction) 1998, was enacted in July, 1998. The Law deals with future commitments by the fuel companies and empowers the Minister of National Infrastructures to determine rules after consulting with the Controller of Restrictive Trade Agreements and after having received approval by the Economics Committee of the Knesset, regarding automatic filling systems (Dalkanim and Pazomatim) and their operation. These rules will apply to all the fuel companies.

C. A draft proposal of legislation by the Ministry of Energy and Infrastructure regarding the term of exclusive contracts between the fuel marketing companies and station owners has been forwarded to government ministries, the president of the Supreme Court and law faculties for their initial comments.

D. As part of the Ministry of Energy's policy to separate the holding of Emergency Inventories of crude oil and product inventories from the companies' operating inventories, the Fuel Authority has designated several tanks at various storage locations for the holding of Emergency Inventories, effective as of July 1, 1998. Furthermore, a tender offer has been published to determine the party which will hold the Emergency Inventories, which have to date been held by the major fuel marketing companies. The final date for the tender has been postponed.

At this time, it is too early to estimate the effects of the said developments on the overall Israeli fuel market in general, and on Sonol in particular.

NOTE 27 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES

a. Income and expenses from interested and related parties.

1. Consist of:

	Year ended December 31,				
	1998	1997		1996	
	Adjusted NIS. (thousands)				
Related parties	Interested parties	Related parties	Interested parties	Related parties	Interested parties
Financing expenses	131	111	1,217	142	84
Financing income	--	348	--	489	--
Income from Management Services	--	6,835	--	6,848	--
Purchases	9,929	--	--	--	--

2. Transactions with interested and related parties are conducted in the normal course of business and according to normal credit terms and do not exceed 10 % of the company's transactions. The Company has been granted an exemption in accordance with paragraph 64(3)D of the Securities Regulations

[Preparation of Annual Financial Statements(correction)]-1995 from the requirement to disclose transactions with interested parties and affiliated companies made during the normal course of business of the Company.

3. Sonol purchases most of the fuel products from Oil Refineries Ltd., which is obligated to supply its products to the fuel marketing companies at the refinery gate price which is under government control.

b. Benefits to interested parties

	Number of persons	Year ended December 31,		
		1998	1997	1996
		Adjusted NIS. (thousands)		
1. Interested party employed by the company	1	6,437*	1,527	1,417
2. Directors	22	706	720	

* Includes NIS. 3,606 thousand on account of severance arrangements and an incentive award (Note 25.c.3).

** Includes overprovision from 1995 in the amount of NIS. 218 thousand.

NOTE 27 - TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES
(CONTINUED)

c. Balances with interested and related parties

	December 31, 1998		December 31, 1997	
	----- Adjusted NIS. (thousands) -----			
	Interested parties	Related parties	Interested parties	Related parties
	-----	-----	-----	-----
Current assets:				
Trade receivables	--	669	9,801	2,838
Accounts receivable	--	66	--	753
	-----	-----	-----	-----
	--	735	9,801	3,591
	=====	=====	=====	=====
Loans and capital notes to subsidiary companies		20,333		17,735
		=====		=====
The highest balance with interested parties during the year	11,860		10,309	
	=====		=====	
Current liabilities:				
Credits from banks and others	--	5,573	--	2,798
Trade payables	9,929	3,204	--	2,585
Accounts payable	--	375	--	280
	-----	-----	-----	-----
	9,929	9,152	--	5,663
	=====	=====	=====	=====
The highest balance with interested parties during the year	9,929		16,786	
	=====		=====	
Commitment to purchase fuel products from an interested party	11,939		--	
	=====		=====	

NOTE 28 - SUBSEQUENT EVENT

1. Subsequent to the balance sheet date, Sonol, as part of the group's reorganization, transferred all its holdings of shares in Vulcan Batteries Ltd. (approximately 84%) to the Company. The transfer was made at market prices and has not effect on the Company's Financial Statements.
2. Subsequent to the balance sheet date, the Company concluded an agreement to purchase the 50% remaining balance of ownership and control (shares and shareholders' loans) in Otzem Promotion and Investments (1991) Ltd. for the shekel equivalent of approximately \$ 800 thousand.

NOTE 29 - FINANCIAL STATEMENTS TRANSLATED INTO U.S. DOLLARS

The financial records of the Company and its consolidated subsidiaries are maintained on a current basis in historical nominal New Israel Shekels.

The translated consolidated financial statements, stated in U.S. dollars, have been prepared in accordance with generally accepted accounting principles for use in connection with the preparation of the financial statements of a U.S. shareholder.

The functional currency of the Company is the U.S. Dollar. Despite the significant reduction in Israel's rate of inflation, the Company has continued to prepare its consolidated financial statements in U.S. dollars in accordance with translation principles identical to those prescribed by Statement of Financial Accounting Standards No. 52 ("F.A.S.B. 52"), based on the historical nominal amounts.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	Translated to U.S. Dollars December 31,	
	1998	1997
-----	----	----
Current assets		
Cash and cash equivalents	2,368	2,220
Marketable securities	2,099	1,232
Trade receivables	149,228	138,228
Accounts receivable	41,396	23,688*
Inventories	48,642	76,737
	-----	-----
	243,733	242,105
	-----	-----
Investments, long-term loans and debit balances		
Subsidiaries, affiliated companies and others	37,858	36,766
Long-term loans	19,356	21,509
Future tax benefits	2	623
	-----	-----
	57,216	58,898
	-----	-----
Fixed assets		
Cost	268,717	246,381
Less: Accumulated depreciation	125,378	112,240
	-----	-----
	143,339	134,141
	-----	-----
Intangible assets and deferred charges, net	12,612	12,564
	-----	-----
	456,900	447,708
	=====	=====

* Reclassified.

NOTE 29 - FINANCIAL STATEMENTS TRANSLATED INTO U.S. DOLLARS (CONTINUED)

CONSOLIDATED BALANCE SHEETS
(In thousands)

Translated to U.S. Dollars

	December 31,	
	1998	1997
	-----	-----
Current liabilities		
Credits from banks and others	255,839	127,285
Current portion of convertible debentures	3,091	11,387
Trade payables	17,998	14,763*
Accounts payable	34,861	25,729
	-----	-----
	311,789	179,164
	-----	-----
Long-term liabilities		
Long-term loans	860	25,365
Debentures convertible into shares of the company (I)	9,772	43,161
Customers' deposits	15,205	17,526
Liabilities for employee rights upon retirement, net	3,405	3,084
Capital notes issued by a consolidated company	52	61
	-----	-----
	29,294	89,197
	-----	-----
Minority interest	3,152	2,813
	-----	-----
Shareholders' equity	112,665	176,534
	-----	-----
	456,900	447,708
	=====	=====

* Reclassified

CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

	Translated to U.S. Dollars		
	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
Revenues:			
Sales	793,106	873,668	871,091
Less: Government imposts	339,228	352,963	337,685
	-----	-----	-----
Net sales	453,878	520,705	533,406
Other income, net	6,833	5,137	2,777
	-----	-----	-----
	460,711	525,842	536,183
	-----	-----	-----
Costs and expenses:			
Cost of sales	327,708	403,680	417,201
Selling, general and administrative expenses	76,162	70,695	68,804
Depreciation and amortization	15,634	14,251	12,756
Financing expenses, net	5,903	7,558	6,033
	-----	-----	-----
	425,407	496,184	504,794
	-----	-----	-----
Operating income before taxes on income	35,304	29,658	31,389
Taxes on income	11,695	10,494	10,554
	-----	-----	-----
Operating income after taxes on income	23,609	19,164	20,835
Company's share in income (loss) of affiliates, net	1,052	(865)	2
Minority interest in income of consolidated subsidiaries (557)	(215)	10	
	-----	-----	-----
Net income for the year	24,446	18,309	20,280
	=====	=====	=====
Earnings per ordinary share:			
Primary	0.18	0.15	0.17
	=====	=====	=====
Fully diluted	0.18	0.13	0.14
	=====	=====	=====

NOTE 29 - FINANCIAL STATEMENTS TRANSLATED INTO U.S. DOLLARS (CONTINUED)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Translated to U.S. Dollars				Total
	Common Stock	Capital Reserves (II)	Retained Earnings	Other Accumulated Comprehensive income*	
Balance as at January 1, 1996:	55,735	36,006	62,826	--	154,567
Changes in 1996:					
Net income for the year	--	--	20,280	--	20,280
Dividend paid	--	--	(8,520)	--	(8,520)
Balance as at December 31, 1996	55,735	36,006	74,586	--	166,327
Changes in 1997:					
Net income for the year	--	--	18,309	--	18,309
Unrealized gains on securities	--	--	--	379	379
Dividend paid	--	--	(8,481)	--	(8,481)
Balance as at December 31, 1997	55,735	36,006	84,414	379	176,534
Changes in 1998:					
Issuance of shares	3,864	28,300**	--	--	32,164
Net income for the year	--	--	24,446	--	24,446
Unrealized gain (losses) on securities	--	--	--	(249)	(249)
Reclassification adjustment for gains included in net income	--	--	--	(146)	(146)
Proceeds from the sale of the Company's shares by a consolidated company, net	--	22	--	--	22
Dividend paid	--	--	(120,106)	--	(120,106)
Balance as at December 31, 1998	59,599	64,328	(11,246)	(16)	112,665

* Deriving from unrealized gains (losses) on marketable securities. Tax effect is immaterial.

** Net of shares' issuance expenses in the amount of \$ 420 thousand.

NOTE 29 - FINANCIAL STATEMENTS TRANSLATED INTO U.S. DOLLARS (CONTINUED)

(I) During 1992, the Company completed an initial public offering of shares, options and debentures, as well as a second public offering of debentures and options to purchase debentures.

The proceeds of the public offerings have been allocated to the securities issued on the basis of their fair market prices at the beginning of trading on the stock exchange. As a result, the debentures are carried at their discounted values as follows:

	U.S. Dollars (thousands)	
	December 31,	
	1998	1997
-----	----	----
-----	-----	-----
Debentures (Series 1 and 2) - face value	13,677	55,258
Discount (Series 1) (*)	814	1,339
	-----	-----
Less current portion	12,863	53,919
	3,091	10,758
	-----	-----
	9,772	43,161
	=====	=====

(*) The discount is being amortized over the remaining period until maturity.

See note 14.B.

(II) The Company's policy is to record long-lived assets at cost, amortizing these costs over the expected useful life of the related assets. In accordance with Statement of Financial Accounting Standards No. 121 ("SFAS 121") "Accounting for the impairment of Long-lived Assets and for Long-lived Assets to be disposed of," these assets are reviewed on a quarterly and annual basis for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be reasonable. Furthermore, the assets are evaluated for continuing value and proper useful lives by comparison to expected future cash flows. For the year ended December 31, 1998, the adoption of SFAS 121 did not have a material effect on the Company.

LIST OF THE MAIN SUBSIDIARIES AND AFFILIATES

date

-----	%
-----	---
Consolidated Subsidiaries	

Sonol Israel Ltd.	100
Vulcan Batteries Ltd.	84
Sprint Motors Ltd.	100
Sprint Motors Agencies (1995) Ltd.	100
Milchen Sonol Agency Ltd.	67
Sonol J-M Ltd.	70
Sonol Dan (1992) Ltd.	100
Allied Oils and Chemicals Ltd.	100
Sonol Yad Mordechai (1972) Ltd.	59
Chem Ami Ltd.	100
Sonapco Bank Street Corporation	100
Supergas Israel Gas Distribution Company Ltd.	100
Supergas Hanegev Ltd.	65
Supergas Rehovot 89 Ltd.	90
Supergas Heating (1984) Ltd.	100
Granite Hacarmel Holdings (1993) Ltd.	100
Granite Hacarmel Properties (1993) Ltd.	100
Granite Hacarmel O.Y. Holdings Ltd.	100

Granite Hacarmel Development Holdings Ltd.	100
Granite Hacarmel Development Ltd.	100
Granite Hacarmel Industries Holdings Ltd.	100
Granite Hacarmel Industries Ltd.	100
Granite Hacarmel Y.A. Holdings Ltd.	100
Granite Hacarmel NZV Holdings Ltd.	100
Granite Hacarmel Motoricka Holdings Ltd.	100
Granite Hacarmel Energy (1997) Ltd.	100
Granite Hacarmel Energy Holding Ltd.	100
Sonol Agencies Shovas (1996) Ltd.	60
Sonol Cnaan Ltd.	51
Sonol Shani Agencies Ltd.	51
M. Solomon & Co. Gas Agencies Ashkelon Ltd.	51
Affiliated Companies	

Aviation Services Ltd.	
22.5	
Tanker Services Ltd.	25
United Petroleum Export Company Ltd.	25
Otzem Promotion and Investments (1991) Ltd.	50
Texma Chemicals Ltd.	50
Yarok Az Ltd.	
22.9	
Etzion Gas Products (1998) Ltd.	50
Lev Magor Management and Services Ltd.	50
Park Cible Management and Holdings Ltd.	50
Nitzba Holdings (1995) Ltd.	
10.4	
Orpak Industries (1983) Ltd.	10
Sonor Ltd.	50
Park Mini Israel - Limited Patnership	35
Mini Israel Ltd.	35

The above list does not include inactive and/or immaterial affiliated companies and other companies.

**AUDITORS' REPORT TO THE SHAREHOLDERS
OF AM-HAL LTD.**

We have audited the accompanying balance sheets of Am-Hal Ltd. ("the Company"), and the consolidated balance sheets of the Company and the consolidated Partnership as of December 31, 1998 and 1997, and the related statements of operations, changes in shareholders' equity and cash flows of the Company for each of the three years in the period ended December 31, 1998, and the consolidated statements of operations and of cash flows for each of the two years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a partnership, whose assets constitute approximately 40% of consolidated total assets as of December 31, 1998 (approximately 11% as of December 31, 1997). The financial statements of the partnership were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included in respect of the aforementioned partnership, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance) - 1973. For purposes of these financial statements, there are no material differences between generally accepted auditing standards in Israel and those in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost, adjusted for changes in the general purchasing power of the Israeli currency in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. A summary of the Company's nominal data, which serve as the basis for the adjusted financial statements, are presented in Note 25.

In our opinion, based on our audits and the reports of the other auditors, the financial statements present fairly, in all material respects, the financial position - of the Company and on a consolidated basis - as of December 31, 1998 and 1997, the results of activities, the changes in shareholders' equity and cash flows of the Company and on a consolidated basis - for each of the three years and two years, respectively, in the period ended December 31, 1998 in accordance with generally accepted accounting principles in Israel which, with respect to these financial statements, are substantially identical to generally accepted accounting principles in the U.S., except as detailed in Note 24 to the financial statements.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we hereby state that we received all of the information and explanations which we requested and that our opinion on the financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

*/s/ Brightman Bar-Levav Friedman &
Co.
Brightman Bar-Levav Friedman & Co.
Certified Public Accountants*

Tel Aviv, February 16, 1999

AUDITORS' REPORT TO THE SHAREHOLDERS OF

AMPAL ENGINEERING (1994) LTD.

We have audited the balance sheet of Ampal Engineering (1994) Ltd. as at December 31, 1996 and 1995, the related statements of income, statements of changes in shareholders' equity and the statements of cash-flows for each of the three years, the latest ended December 31, 1996, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Israeli Auditors Regulations (Auditor's Mode of Performance), 1973 and accordingly, we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, either originating within the financial statements themselves, or due to any misleading statement included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

The above statements have been prepared on the basis of the historical cost as adjusted for the changes in the general purchasing power of the Israel currency, in accordance with opinions issued by the Institute of Certified Public Accountants in Israel. Condensed statements in historical values which formed the basis of the adjusted statements appear in Note 7 to the financial statements.

In our opinion, the above mentioned financial statements present fairly, in conformity with generally accepted accounting principles, in all material respects, the financial position of the Company as at December 31, 1996 and 1995, the results of its operations, the changes in its shareholders' equity and cash-flows for each of the three years, the latest ended December 31, 1996, in conformity with accounting principles generally accepted in the United States and in Israel (as applicable to the financial statements of the Company, such accounting principles are practically identical).

Pursuant to Section 211 of the Companies Ordinance (New Versions)- 1983, we state that we have obtained all the information and explanations we have required and that our opinion on the above statements is given according to the best of our information and the explanations received by us and as shown by the Company's books.

SHLOMO ZIV & CO.

Tel-Aviv, March 18, 1997

(Isr.)

/s/ [ILLEGIBLE]

Certified Public Accountants

[LETTERHEAD OF COHEN, EYAL, YEHOSHUA & CO.]

AMPAL ENTERPRISES LTD.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

SPECIAL PURPOSE STATEMENT

We have audited the balance sheets of Ampal Enterprises Ltd. as at December 31, 1996 and 1995, the related statements of profit and loss, the statement of changes in shareholders' equity and the statement of cash flows for each of the three years in the period ended December 31, 1996, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance), 1973. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether originating in an error in the financial statements or misstatement contained therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost adjusted to reflect changes in the general purchasing power of the Israel currency in accordance with pronouncements issued by the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data on the basis of which the adjusted financial statements were prepared, are presented in Note 5.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995, the results of its operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996, in accordance with generally accepted accounting principles. Also, in our opinion, the financial statements based on nominal data (Note 5) present fairly, in nominal terms, the financial position of the Company as at December 31, 1996 and 1995, the results of its operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996, on the basis of the historical cost convention.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we hereby state that we received all of the information and explanations which we requested and that our opinion on the financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

*/s/ COHEN, EYAL, YEHOSHUA & CO.
Cohen, Eyal, Yehoshua & Co.
Certified Public Accountants
(Isr.)*

March 10, 1997

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
AMPAL FINANCIAL SERVICES LTD.**

We have audited the balance sheets of AMPAL FINANCIAL SERVICES LTD. as of December 31, 1996 and 1995 and the related statements of income and shareholders' equity and cash flows for the three years in the period ended December 31, 1996, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's management.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance), 1973 and, accordingly, we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

The above statements have been prepared on the basis of historical cost as adjusted for changes in the general purchasing power of the Israeli currency, in accordance with opinions issued by the Institute of Certified Public Accountants in Israel.

Condensed statements in historical values which formed the basis of the adjusted statements appear in Note 13 to the financial statements.

In our opinion, the above mentioned financial statements present fairly the financial position of the Company as of December 31, 1996 and 1995 and the results of its operations, the changes in its shareholders' equity and its cash flows for each of the three years in the period ended December 1996, in conformity with accounting principles generally accepted in Israel, consistently applied. Also, in our opinion, the financial statements based on nominal data (Note 13) present fairly, in conformity with generally accepted accounting principles, the financial position of the Company as of December 31, 1996 and 1995, the results of its operations, the changes in shareholders' equity and its cash flows for each of the three years in the period ended December 31, 1996, on the basis of the historical cost convention.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The data regarding this difference is summarized in Note 13 to the financial statements.

*/s/ Fahn, Kanne & Co.
Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

AUDITORS' REPORT TO THE SHAREHOLDERS OF

AMPAL HOLDINGS (1991) LTD

We have audited the balance sheet of Ampal Holdings (1991) Ltd. as at December 31, 1996 and 1995, the related statements of income, statements of changes in shareholders' equity and the statements of cash-flows for each of the three years, the latest ended December 31, 1996, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Israeli Auditors Regulations (Auditor's Mode of Performance), 1973 and accordingly, we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, either originating within the financial statement themselves, or due to any misleading statement included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

The above statements have been prepared on the basis of the historical cost as adjusted for the changes in the general purchasing power of the Israel currency, in accordance with opinions issued by the Institute of Certified Public Accountants in Israel. Condensed statements in historical values which formed the basis of the adjusted statements appear in Note 8 to the financial statements.

In our opinion, the above mentioned financial statements present fairly, in conformity with generally accepted accounting principles, in all material respects, the financial position of the Company as at December 31, 1996 and 1995, the results of its operations, the changes in the shareholders' equity and cash-flows for each of the three years, the latest ended December 31, 1996 in conformity with accounting principles generally accepted in the United States and in Israel (as applicable to the financial statements of the Company, such accounting principles are practically identical).

Pursuant to Section 211 of the Companies Ordinance (New Versions) 1983, we state that we have obtained all the information and explanations we have required and that our opinion on the above statements is given according to the best of our information and the explanations received by us and as shown by the Company's books.

SHLOMO ZIV & CO.

Tel-Aviv, March 6, 1997

(Isr.)

/s/ [ILLEGIBLE]

Certified Public Accountants

[LETTERHEAD OF FAHN, KANNE & CO.]

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
AMPAL INDUSTRIES (ISRAEL) LTD.**

We have audited the balance sheets of AMPAL INDUSTRIES (ISRAEL) LTD. as of December 31, 1998 and 1997 and the related statements of income, shareholders' equity and cash flows for the three years in the period ended December 31, 1998, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's management.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance), 1973 and, accordingly, we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

The data included in the Company's financial statements relating to the equity in investee companies and relating to the Company's share in the results of their operations are based on financial statements which were audited by other auditors.

The above statements have been prepared on the basis of historical cost as adjusted for changes in the general purchasing power of the Israeli currency, in accordance with opinions issued by the Institute of Certified Public Accountants in Israel.

Condensed statements in historical values which formed the basis of the adjusted statements appear in Note 19 to the financial statements.

In our opinion, based on our audit and the reports of other auditors, the above mentioned financial statements present fairly the financial position of the Company as of December 31, 1998 and 1997 and the results of its operations, the changes in its shareholders' equity and its cash flows for each of the three years in the period ended December 1998, in conformity with accounting principles generally accepted in Israel, consistently applied. Also, in our opinion, the financial statements based on nominal data (Note 19) present fairly, in conformity with generally accepted accounting principles, the financial position of the Company as of December 31, 1998 and 1997, the results of its operations, the changes in shareholders' equity and its cash flows, for each of the three years in the period ended December 31, 1998, on the basis of the historical cost convention.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The data regarding this difference is summarized in Note 20 to the financial statements.

*/s/ Fahn, Kanne & Co.
Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

**[LETTERHEAD OF HAFT & HAFT & CO.
INCL. STRAUSS, LAZER & CO.]**

AMPAL (ISRAEL) LTD.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

SPECIAL PURPOSE STATEMENT

We have audited the accompanying consolidated balance sheets of Ampal (Israel) Ltd, as of December 31, 1996 and 1995, and the related statements of profit and loss, changes in shareholders' equity and cash flows for each of the two years ended on those dates, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance). - 1973. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether originating in an error in the financial statements or in a misrepresentation included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost, adjusted to reflect changes in the general purchasing power of the Israeli currency in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data, on the basis of which the adjusted financial statements of the Company were prepared, is presented in Note 25.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 31% and 32% of consolidated total assets as of December 31, 1996 and 1995, respectively, and whose revenues constitute approximately 48% and 34% of consolidated total revenues for the years ended on those dates respectively. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included in respect of the aforementioned subsidiaries, is based solely on the reports of the other auditors. Also, the financial statements of included companies which were presented at their book equity, were examined by other auditors.

In our opinion, based on our audits and the reports of the other auditors, the financial statements present fairly, in all material respects, the financial position of the Company on a consolidated basis as of December 31, 1996 and 1995 and the results of operations, changes in shareholders' equity and cash flows of the Company on a consolidated basis for each of the two years ended on December 31, 1996 and 1995, in accordance with generally accepted accounting principles in Israel.

Also, in our opinion, the unconsolidated financial statements based on nominal data (Note 25) present fairly, in nominal terms, the unconsolidated financial position of the Company as at December 31, 1996 and 1995, and the results of its operations, the changes in shareholders' equity and its cash flows for each of the three years in the period ended December 31, 1996, on the basis of the historical cost convention.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The data regarding the method of translation to U.S. dollars and the above mentioned differences are summarized in Note 25F to the financial statements.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we hereby state that we received all of the information and explanations which we requested and that our opinion on the financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

*/s/ H.H.S.L. Haft & Haft & Co.
H.H.S.L. Haft & Haft & Co.
Certified Public Accountants
(Isr.)*

March 10, 1997

AMPAL PROPERTIES LTD.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

SPECIAL PURPOSE STATEMENT

We have audited the balance sheets of Ampal Properties Ltd. as at December 31, 1996 and 1995, the related statements of profit and loss, the statement of changes in shareholders' equity and the statement of cash flows for each of the two years in the period ended December 31, 1996, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance), 1973. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether originating in an error in the financial statements or misstatement contained therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost adjusted to reflect changes in the general purchasing power of the Israel currency in accordance with pronouncements issued by the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data on the basis of which the adjusted financial statements of the Company were prepared, is presented in Note 8.

The data in the financial statement relating to investment in an unconsolidated subsidiary and to the Company's share in the losses of included companies, amounting to N.I.S. 8,194 thousand are based on financial statements audited by other auditors.

In our opinion, based on our audits and the report of the other auditors, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1996 and 1995 and the results of its operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 1996, in accordance with generally accepted accounting principles. Also, in our opinion, the financial statements based on nominal data (Note 8) present fairly, in nominal terms, the financial position of the Company as at December 31, 1996 and 1995, the results of its operations, changes in shareholders' equity, and its cash flows for each of the three years in the period ended December 31, 1996, on the basis of the historical cost convention.

Without qualifying our opinion, we call attention to the Company's accumulated losses, which substantially exceed its capital.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The data regarding the method of translation to U.S. dollars and the above mentioned differences are summarized in Note 8E to the financial statements.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we hereby state that we received all of the information and explanations which we requested and that our opinion on the financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

*/s/ COHEN, EYAL, YEHOSHIA & CO.
Cohen, Eyal, Yehoshia & Co.
Certified Public Accountants
(Isr.)*

March 10, 1997

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
BAY HEART LTD. AND SUBSIDIARY**

We have audited the accompanying balance sheets of Bay Heart Ltd. ("the Company") as of December 31, 1998 and 1997, and the consolidated balance sheets as of such dates, and the related statements of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for each of the years then ended. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. Comparative figures in the financial statements for the year ended December 31, 1996 were audited by other auditors whose report, dated February 10, 1997, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance) - 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost, adjusted to reflect changes in the general purchasing power of the Israeli currency in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data, on the basis of which the adjusted financial statements were prepared, is presented in Note 24.

In our opinion, the financial statements present fairly, in all material respects, the financial position - of the Company and on a consolidated basis - as of December 31, 1998 and 1997, and the results of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for the years then ended in accordance with generally accepted accounting principles.

Furthermore, in our opinion, the financial statements are prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements) - 1993.

The condensed consolidated financial information in U.S. dollars presented in Note 25 to the financial statements, prepared at the request of an affiliate, represents a translation of the Company's nominal Israeli currency financial data in accordance with the basis stated in Note 25A. In our opinion, such translation into U.S. dollars was properly made in accordance with the basis stated in Note 25A.

*/s/ Brightman Bar-Levav Friedman &
Co.
Brightman Bar-Levav Friedman & Co.
Certified Public Accountants*

Haifa, February 3, 1999

[LETTERHEAD OF RONEL STETTNER & CO]

[CERTIFIED PUBLIC ACCOUNTANT ISRAEL]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF

BAY HEART LTD.

We have audited the balance sheets of Bay Heart Ltd. ("the Company") as of December 31, 1996 and 1995, and the consolidated balance sheets of the Company and its subsidiary ("the consolidated") as of December 31, 1996 and 1995, and the related statements of income, statements of changes in shareholders' equity and statements of cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the auditors Regulations (Auditor's Mode of Performance), 1973 and accordingly, we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

The above statements have been prepared on the basis of historical cost as adjusted for the changes in the general purchasing power of the Israeli currency in accordance with opinion issued by the Institute of Certified Public Accountants in Israel.

Condensed statements in historical values which formed the basis of the adjusted statements, appear in Note 23 to the financial statements. These amounts have been translated into U.S. dollars using the method described in Note 24.

In our opinion, based on our audit, the above mentioned consolidated financial statements present fairly the financial position consolidated and Company - as of December 31, 1996 and 1995, the results of its operations, the changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996, in conformity with accounting principles generally accepted in Israel, consistently applied.

Also, in our opinion, the condensed - consolidated and the Company's financial statements based on nominal data as presented in Note 24 present fairly, in conformity with generally accepted accounting principles, the financial position of the Company as at December 31, 1996 and 1995, and the results of operations, changes in shareholder's equity, and its cash flows for each of the three years in the period ended December 31, 1996, on the basis of the historical cost convention.

[LETTERHEAD OF RONEL STETTNER & CO]

[CERTIFIED PUBLIC ACCOUNTANT ISRAEL]

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of historical net income (loss) and shareholder's equity to the extent summarized in Note 24(g) to the financial statements.

Haifa, Israel, RONEL STETTNER & CO

February 10, 1997

(Israel)

*/s/ Ronel Stettner & Co
Certified Public Accountant*

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of Carmel Container Systems Ltd. ("the Company") and its subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of subsidiaries, which statements reflect total assets constituting 21% and 20% as of December 31, 1997 and 1998, respectively, and total revenues constituting 32%, 34% and 32% of the related consolidated totals for each of the three years in the period ended December 31, 1998. These financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for these subsidiaries is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States and Israel, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement either originating within the financial statements themselves or due to any misleading statement included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and Company's management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

The aforementioned consolidated financial statements have been prepared on the basis of the historical cost adjusted to reflect the changes in the general purchasing power of the Israeli currency, as required by the Statements of the Institute of Certified Public Accountants in Israel.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Carmel Container Systems Ltd. and its subsidiaries as of December 31, 1997 and 1998, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in Israel which differ in certain respects from those followed in the United States (see Note 22 to the consolidated financial statements).

*Tel-Aviv, Israel
March 4, 1999
(Israel)*

*/s/ KOST, FORER & GABBAY

KOST, FORER & GABBAY
Certified Public Accountants*

**[LETTERHEAD OF PORAT & CO.]
CERTIFIED PUBLIC ACCOUNTANTS (ISR.)**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
TO THE SHAREHOLDERS
OF
COUNTRY CLUB KFAR-SABA LIMITED**

We have audited the financial statements of Country Club Kfar-Saba Limited (hereinafter - the Company), as follows:

- Balance sheets of the Company as at December 31, 1998, December 31, 1997.
- Statements of income, shareholders equity and cash flow for the company for the two years ended December 31, 1998 and December 31, 1997.

These statements are the responsibility of the Company's management.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's, Mode of Performance), 1973 and, accordingly we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The above statements have been prepared on the basis of historical cost as adjusted for the changes in the general purchasing power of the Israel currency in accordance with opinions issued by the Institute of Certified Public Accountants in Israel.

Condensed statements in historical values which formed the basis of the adjusted statements appear in Note 19 to the financial statements. These amounts have been translated into U.S. dollars using the method described in Note 2G.

[LETTERHEAD OF PORAT & CO.]
CERTIFIED PUBLIC ACCOUNTANTS (Isr.)
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
TO THE SHAREHOLDERS
OF
COUNTRY CLUB KFAR-SABA LIMITED

In our opinion, based on our audit, the above mentioned financial statements present fairly the financial position of the Company as at December 31, 1998 and 1997, the results of its operations, the changes in shareholders' equity and cash flows for each of the years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in Israel, consistently applied. Also, in our opinion, the financial statements based on nominal data (Note 19) present fairly, in conformity with generally accepted accounting principles, the financial position of the Company as at December 31, 1998 and 1997, and the results of its operations, the changes in shareholders' equity and its cash flows for each of the three years in the period ended December 31, 1998, on the basis of the historical cost convention.

Pursuant to section 211 of the companies ordinance (new version) 1983, we state that we have obtained all the information and explanations we have required and that our opinion on the aforementioned financial statements is given to the best of our information and the explanations received by us and as shown by the books of the company.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of nominal/historical net income (loss) and shareholders' equity to the extent summarized in Note 20 to the financial statements.

Porat & Co.

(Isr.)

Ramat Gan, February 18, 1999

*/s/ Porat & Co.
Certified Public Accountants*

**[LETTERHEAD OF FAHN, KANNE & CO.]
CERTIFIED PUBLIC ACCOUNTANTS (ISR.)**

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF CORAL WORLD INTERNATIONAL LTD.**

We have audited the accompanying consolidated balance sheets of "Coral World International Ltd." (the "Company") and its subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the two years ended December 31, 1998. These financial statements are the responsibility of the Board of Directors and the management of the Company. Our responsibility is to express an opinion of these financial statements based on our audits.

We did not audit the financial statements of certain consolidated subsidiaries which statements reflect assets and revenues of 79% and 51% in 1998 and 79% and 35% in 1997 of the related consolidated totals. The statements of these subsidiaries were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Coral World International Ltd. and subsidiaries as of December 31, 1998 and 1997, and the results of operations, changes in shareholders' equity and cash flows for each of the two years ended December 31, 1998, in accordance with generally accepted accounting principles.

*/s/ Fahn, Kanne & Co.
Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

Tel-Aviv, Israel, March 4, 1999

[LETTERHEAD OF ARTHUR ANDERSEN LLP]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Coral World International Ltd.:

We have audited the accompanying consolidated balance sheets of Coral World International Ltd. (a Guernsey corporation) and subsidiaries (the "Company") as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets and total revenues of 47% and 60%, respectively, in 1996, 52% and 49%, respectively, in 1995, and revenues of 40% in 1994, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Coral World International Ltd. and subsidiaries as of December 31, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen

LLP

*March 26, 1997
New York, New York*

[LETTERHEAD OF DELOITTE TOUCHE TOHMATSU]

[BRIGHTMAN ALMAGOR & CO.]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF

EPSILON INVESTMENT HOUSE LTD.

We have audited the Consolidated Balance Sheet of EPSILON INVESTMENT HOUSE LTD., (an Israeli corporation) (hereinafter - "the Company") and its subsidiary as at December 31, 1998 and 1997, and the related Consolidated Statements of Income, Comprehensive Income and Changes in Shareholders' Equity for each of the 3 years in the period ended December 31, 1998, translated into U.S. Dollars. These Financial Statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these Financial Statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by Management as well as evaluating the overall Financial Statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The Statement of Cash Flows for the period has not been included in the Financial Statements.

In our opinion, the nominal Financial Statements in NIS, which were the base of the translation of the Financial Statements as referred to above, present fairly, in all material respects, the financial position of the Company and its subsidiary, as at December 31, 1998 and 1997, the results of their operations and the changes in their shareholders' equity, for each of the 3 years in the period ended December 31, 1998, in conformity with generally accepted accounting principles, which are not substantially different from those followed in the United States.

Also, in our opinion, the translated amounts in the accompanying Consolidated Financial Statements translated into U.S. Dollars have been computed on the basis set forth in Note 2.2 to the Consolidated Financial Statements.

*/s/ Brightman, Almagor &
Co.*

*BRIGHTMAN, ALMAGOR & CO.
Certified Public
Accountants*

Tel-Aviv, March 24, 1999

CERTIFIED PUBLIC ACCOUNTANTS (Isr.)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Certified Public Accountants (Isr.)

OF

HOD HASHARON SPORT CENTER (1992) LIMITED PARTNERSHIP

We have audited the balance sheet of Hod Hasharon Sport Center (1992) Limited Partnership as at December 31, 1998 and 1997, and the related statements of income, partners' capital and cash flows for each of the three years in the period ended December 31, 1998, expressed in New Israel Shekels. These financial statements are the responsibility of the partnership management.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973 and, accordingly we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The above statements have been prepared on the basis of historical cost as adjusted for the changes in the general purchasing power of the Israel currency in accordance with opinions issued by the Institute of Certified Public Accountants in Israel.

Condensed statements in historical values which formed the basis of the adjusted statements appear in Note 19 to the financial statements. These amounts have been translated into U.S. dollars using the method described in Note 2D.

**[LETTERHEAD OF PORAT & CO.]
CERTIFIED PUBLIC ACCOUNTANTS (ISR.)**

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

OF

HOD HASHARON SPORT CENTER (1992) LIMITED PARTNERSHIP

In our opinion, based on our audit the above mentioned financial statements present fairly the financial position of the partnership as at December 31, 1998 and 1997, the results of its operations, the changes in partners' capital and cash flows for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in Israel, consistently applied. Also, in our opinion, the financial statements based on nominal data (Note 19) present fairly, in conformity with generally accepted accounting principles, the financial position of the partnership as at December 31, 1998 and 1997, and the results of its operations, the changes in partners' capital and its cash flows for each of the three years in the period ended December 31, 1998, on the basis of the historical cost convention.

Pursuant to section 211 of the companies ordinance (new version) 1983, we state that we have obtained all the information and explanations we have required and that our opinion on the aforementioned financial statements is given to the best of our information and the explanations received by us and as shown by the books of the company.

Porat and Co.

*/s/ Porat and Co.
Certified Public Accountants
(Isr.)*

Ramat Gan, March 1,1999

[LETTERHEAD OF ERNST & YOUNG]

[KOST FORER & GABBAY]

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF

MIVNAT HOLDING LTD.

We have audited the accompanying balance sheets of Mivnat Holding Ltd. ("the Company") as of December 31, 1998 and 1997 and its subsidiaries ("the Consolidated") as of December 31, 1997 and the statements of income, changes in shareholders' equity and cash flows - the Company and the Consolidated - for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973, which do not differ in any significant respect from generally accepted auditing standards in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, either originating within the financial statements themselves or due to any misleading statement included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of the historical cost adjusted to reflect the changes in the general purchasing power of the Israeli currency, as required by the Statements of the Institute of Certified Public Accountants in Israel.

A summary of the Company's financial statements in nominal (historical) Israeli shekels was not presented in these financial statements.

In our opinion, except for the matter described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997 and of the Consolidated as of December 31, 1997 and the related results of operations, changes in shareholders' equity and cash flows - the Company and the Consolidated - for each of three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in Israel. Also, in our opinion, the consolidated financial statements based on nominal data (Note 26) present fairly, in all material respects, the consolidated financial position as of December 31, 1997, and the related consolidated results of operations and changes in shareholders' equity for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in Israel, on the basis of the historical cost convention.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. Financial statements based on the application of the latter and their translation into U.S. dollars based on the principles set forth in SFAS 52, are presented in Note 26 to the financial statements.

Pursuant to Section 211 of the Companies Ordinance (New Version) 1983, we hereby state that we have received all the information and explanations which we have requested and that our opinion on the above financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

*Tel-Aviv, Israel
March 7, 1999
(Israel)*

*/s/ Kost Forer & Gabbay
KOST FORER & GABBAY
Certified Public Accountants*

AUDITORS' REPORT
TO THE SHAREHOLDERS OF
MORIAH HOTELS LTD.

We have audited the accompanying consolidated balance sheets of Moriah Hotels Ltd. (an Israeli corporation) (hereinafter - the company) and its subsidiaries as at December 31, 1998 and 1997, and the related consolidated statements of income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998, expressed in US dollars. These financial statements are the responsibility of the board of directors and company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the company's board of directors and management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Moriah Hotels Ltd. and its subsidiaries as at December 31, 1998 and 1997, and the results of their operations, changes in their shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in Israel, which differ in certain respects from those followed in the United States (see note 1 to the consolidated financial statements).

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into US dollars have been computed on the basis set forth in note 1a. to the consolidated financial statements.

*/s/ HAGGAI WALLENSTEIN, DOV & CO.
HAGGAI WALLENSTEIN, DOV & CO.
Certified Public Accountants*

*(Isr.)
Ramat-Gan,
March 14, 1999*

**[LETTERHEAD OF HAFT & HAFT & CO.
INCL. STRAUSS, LAZER & CO.]**

NIR LTD.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

SPECIAL PURPOSE STATEMENT

We have audited the accompanying balance sheets of Nir Ltd. as at December 31, 1996 and 1995, the related statements of profit and loss, the statement of changes in shareholders' equity and the statement of cash flows for each of the three years in the period ended December 31, 1996, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance), 1973. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether originating in an error in the financial statements or misstatement contained therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost adjusted to reflect changes in the general purchasing power of the Israel currency in accordance with pronouncements issued by the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data, on the basis of which the adjusted financial statements were prepared, is presented in Note 17.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995, the results of its operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996, in accordance with generally accepted accounting principles.

Also in our opinion, the financial statements based on nominal data (Note 17) present fairly, in nominal terms, the financial position of the Company as at December 31, 1996 and 1995, and the results of its operations, the changes in shareholders' equity, and its cash flows for each of the three years in the period ended December 31, 1996, on the basis of the historical cost convention.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The data regarding the method of translation to U.S. dollars and the abovementioned differences are summarized in Note 17E to the financial statements.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we hereby state that we received all of the information and explanations which we requested and that our opinion on the financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

*/s/ H.H.S.L. HAFT & HAFT & CO.
H.H.S.L. Haft & Haft & Co.
Certified Public Accountants
(Isr.)*

March 10, 1997

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF

OPHIR HOLDINGS LTD.

We have audited the financial statements of Ophir Holdings Ltd. (hereafter - the Company) and the consolidated financial statements of the Company and its subsidiaries: balance sheets as of December 31, 1998 and 1997 and the related statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 25% and 22% of total consolidated assets as of December 31, 1998 and 1997, respectively, and whose revenues constitute approximately 21%, 11% and 13%, of total consolidated revenues and gains for the years ended December 31, 1998, 1997 and 1996, respectively. We did not audit the financial statements of certain associated companies, the Company's interest in which as reflected in the balance sheets as of December 31, 1998 and 1997 is adjusted NIS 426,127,000 and adjusted NIS 197,862,000, respectively, and the Company's share in excess of profits over losses of which is a net amount of adjusted NIS 5,237,000 in 1998, adjusted NIS 8,246,000 in 1997 and adjusted NIS 11,254,000 in 1996. The financial statements of those subsidiaries and associated companies were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other independent auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, either due to error or to intentional misrepresentation. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent auditors provide a fair basis for our opinion.

[2ND PAGE LETTERHEAD OF PRICEWATERHOUSECOOPERS]

The aforementioned financial statements have been prepared on the basis of historical cost adjusted to reflect the changes in the general purchasing power of Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data of the Company, on the basis of which its adjusted financial statements were prepared, are presented in note 15.

In our opinion, based upon our audits and the reports of the other independent auditors, the aforementioned financial statements present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 1998 and 1997 and the results of operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in Israel. Also, in our opinion, the abovementioned financial statements have been prepared in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of nominal historical net income and shareholders' equity to the extent summarized in note 16.

The special condensed consolidated financial statements which are presented in note 16 have been translated into U.S. dollars for the convenience of one of the Company's shareholders, in accordance with the principles set forth in Statement of Financial Accounting Standard No. 52 of the Financial Accounting Standards Board of the United States. In our opinion, the translation has been properly made.

*Tel-Aviv, Israel
March 11, 1999
(Isr.)*

*/s/ KESSELMAN & KESSELMAN
Kesselman & Kesselman
Certified Public Accountants*

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
ORLITE INDUSTRIES (1959) LTD**

We have audited the balance sheets of OrLite Industries (1959) Ltd (hereinafter - the Company) at 31 December 1996 and 1995 and the related statements of income, shareholder's equity and cash flows for each of the three years ended 31 December 1996, 1995 and 1994, expressed in New Israeli Shekels (hereinafter NIS). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditors Mode of Performance), 1973, and, accordingly we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the US. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The above statements have been prepared on the basis of historical cost as adjusted for the changes in the general purchasing power of the Israeli currency in accordance with opinions issued by the Institute of Certified Public Accountants in Israel.

In our opinion, based on our audit, the above mentioned financial statements present fairly the financial position of the Company at 31 December 1996 and 1995 and the results of its operations, the changes in shareholders' equity and cash flows for each of the three years ended 31 December 1996, 1995 and 1994, in conformity with accounting principles generally accepted in Israel, consistently applied.

Also, in our opinion, based on our audit, the financial statements of the company, on the basis of historical cost convention, present fairly the financial position of the Company at 31 December 1996 and 1995 and the results of its operations, the changes in shareholders' equity for each of the three years ended 31 December 1996, 1995 and 1994, in conformity with accounting principles generally accepted in Israel, consistently applied.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of historical net income and shareholders' equity to the extent summarized in Note 23 to the financial statements.

These financial statements have been prepared in accordance with the Securities Regulations (Preparation of Financial Statements), 1993.

*/s/ BRAUDE
BAVLY
BRAUDE BAVLY
CPA*

24 February 1997

AUDITORS' REPORT TO THE SHAREHOLDERS
OF
ORTEK LIMITED

We have audited the accompanying balance sheets of Ortek Limited (the "Company") as at December 31, 1997 and 1996, and the statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's board of directors and management our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including standards prescribed by the Auditors (Modes of Operation) Regulations, 1973, which auditing standards are identical in all material respects to generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error in the financial statements or anything misleading therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a fair basis for our opinion.

The above financial statements are prepared on the historical cost basis adjusted for changes in the general purchasing power of the Israeli currency according to Opinions of the Institute of Certified Public Accountants in Israel. Condensed nominal data, on the basis of which the adjusted financial statements were prepared, are presented in Note 24. These amounts have been translated into U.S. dollars using the method describe in the Note to the accompanying financial statements in U.S. dollars.

In our opinion, the above financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of operations, the changes in shareholders' equity and the cash flows for each of the years then ended, in conformity with generally accepted accounting principles in Israel, which differ in one respect from generally accepted accounting principles in the United States (see Note 3 to these financial statements).

Pursuant to Section 211 of the Companies Ordinance (New Version), 1983, we state that we have obtained all the information and explanations we required and that our opinion on the above financial statements is given according to the best of our information and the explanations received by us and as shown by the records of the Company.

*/s/ BRAUDE
BAVLY
Braude Bavly*

Tel Aviv, March 1, 1998

[LETTERHEAD OF SHLOMO ZIV & CO.]

AUDITORS' REPORT

TO THE SHAREHOLDERS OF

PARADISE INDUSTRIES LTD.

We have audited the balance sheets of Paradise Industries Ltd. ("the Company") as of December 31, 1997 and 1996 and the related statements of operation, statements of changes in shareholders' equity and the statements of cash flows for each of the three years, the latest ended December 31, 1997. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Israeli Auditors' Regulations, (Auditor's Mode of Performance) - 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, either originating within the financial statements themselves, or due to any misleading statement included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost as adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. Condensed statements in historical values which formed the basis of the adjusted statements appear in Note 26 to the financial statements.

In our opinion, the abovementioned financial statements present fairly, in accordance with generally accepted accounting principles, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations, the changes in its shareholders' equity and cash flows for each of the three years, the latest ended December 31, 1997. Similarly, in our opinion, the abovementioned Financial Statements have been prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements) 1993.

Without qualifying our aforementioned opinion, we draw your attention to Note 24, regarding a fire which broke out in the Company's factory and the action of the Company's management in connection with the reconstruction of the factory and renewal of operations.

Shlomo Ziv & Co.

/s/
Certified Public Accountants
(Isr.)

Tel-Aviv, February 24, 1998

[LETTERHEAD OF FAHN, KANNE & CO.]

Number: 990

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
RED SEA MARINELAND HOLDING (1973) LTD.**

We have audited the balance sheet of Red Sea Marineland Holding (1973) Ltd. as of December 31, 1996. These financial statements are the responsibility of the Company's management.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance), 1973 and accordingly, we have performed such auditing procedures as we considered necessary in the circumstances. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

Information as to the effect of the changes in the general purchasing power of the Israeli currency on the financial statements in accordance with opinions of the Institute of Certified Public Accountants in Israel, has not been included in the above statements.

In our opinion, except for the omission of the information referred to in the preceding paragraph, the above Balance Sheet present fairly, in conformity with generally accepted accounting principles, the financial position of the Company as at December 31, 1996, on the basis of the historical cost convention.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we state that we have obtained all the information and explanations we have required and that our opinion on the above Balance Sheet is given according to the best of our information and the explanations received by us and as shown by the books of the Company.

*/s/ FAHN, KANNE & CO.
Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

Tel Aviv, Israel, March 17, 1997

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
RED SEA UNDERWATER OBSERVATORY LTD.**

We have audited the balance sheet of Red Sea Underwater Observatory Ltd. (hereinafter: "the Company") and the consolidated balance sheet of the Company and its subsidiaries as of December 31, 1996, and the related consolidated and company statements of income, changes in shareholders' equity and cash flows for the year then ended, expressed in New Israeli Shekels. These financial statements are the responsibility of the Company's management.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance), 1973. For purposes of these financial statements, there is no material difference between generally accepted Israeli auditing standards and auditing standards generally accepted in the U.S. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement, whether accidental or intentional. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The above statements were prepared on the basis of historical cost as adjusted for changes in the general purchasing power of the Israeli shekel, in accordance with opinions issued by the Institute of Certified Public Accountants in Israel.

Condensed statements of the Company in historical values, which formed the basis of the adjusted statements, appear in Note 14 to the financial statements. These amounts were translated into U.S. dollars using the method described in Note 15.

The financial statements of subsidiaries operating abroad, whose assets constitute approximately 62% of the total assets contained in the consolidated balance sheet and whose sales constitute approximately 37% of the total revenues contained in the consolidated statement of income for the year ended December 31, 1996, were audited by other auditors.

In our opinion, based on our audit and the reports of other auditors, as mentioned above, the financial statements present fairly the financial position of the Company and Consolidated as of December 31, 1996, and the results of operations, changes in shareholders' equity and cash flows for the Company and Consolidated for the year then ended, in conformity with accounting principles generally accepted in Israel, consistently applied. Also, in our opinion, the financial statements based on nominal data (Note 14) present fairly, in conformity with generally accepted accounting principles, the financial position of the Company as of December 31, 1996 and the results of its operations for the year ended December 31, 1996, on the basis of the historical cost convention.

In addition, in our opinion, the condensed financial statements translated into U.S. Dollars (Note 15) are presented fairly in conformity with S.F.A.S. 52.

*/s/ FAHN, KANNE & CO.
Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

Tel Aviv, Israel, March 17, 1997

[LETTERHEAD OF DELOITTE TOUCHE TOHMATSU]

[BRIGHTMAN ALMAGOR & CO.]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF

RENAISSANCE INVESTMENT CO. LTD

We have audited the Balance Sheet of RENAISSANCE INVESTMENT CO. LTD., (an Israeli corporation) (hereinafter - "the Company") as at December 31, 1998 and 1997, and the related Statements of Income, comprehensive income and Changes in Shareholders' Equity for each of the 3 years in the period ended December 31, 1998, translated into US Dollars. These Financial Statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these Financial Statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by Management as well as evaluating the overall Financial Statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The Statement of Cash Flows for the period has not been included in the Financial Statements.

In our opinion, the nominal Financial Statements in NIS., which were the base of the translation of the Financial Statements as referred to above, present fairly, in all material respects, the financial position of the Company, as at December 31, 1998 and 1997, the results of their operations and the changes in their shareholders' equity, for each of the 3 years in the period ended December 31, 1998, in conformity with generally accepted accounting principles, which are not substantially different from those followed in the United States.

Also, in our opinion, the translated amounts in the accompanying Financial Statements translated into US Dollar have been computed on the basis set forth in Note 2.2 to the Financial Statements.

*/s/ BRIGHTMAN, ALMAGOR &
CO.
BRIGHTMAN, ALMAGOR & CO.,
Certified Public
Accountants*

Tel-Aviv, March 24, 1999

Messrs. Ampal LTD

Re: Financial statements of Shmay-Bar Real Estate 1993 Ltd.
("the Company") translated into U.S. dollars

As you know, the Company publishes in Israel financial statements in NIS adjusted to the changes in the Consumer Price Index, in accordance with Statements of the Institute of Certified Public Accountants in Israel. These primary annual financial statements of the Company for the years 1998 and 1997, which were audited by us, and on which we expressed our opinion on February 18, 1999, have been provided to you.

We have audited the accompanying translated U.S. dollar balance sheets of the Company as of December 31, 1998 and 1997, and the related translated U.S. dollar statements of income for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors Regulations (Mode of Performance)(Israel), 1973, which do not differ in any significant respect from United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, either originating within the financial statements themselves, or due to any misleading statement included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned translated U.S. dollar financial statements have been prepared on the basis of nominal NIS historical cost. Disclosure of the effect of the changes in the general purchasing power of the Israeli currency in the financial statements as stated in the Opinions of the Institute of Certified Public Accountants in Israel, has not been included in the above mentioned statements.

Full financial statement disclosures and statements of cash flows that are as required by generally accepted accounting principles have not been presented and as such, the translated U.S. dollar financial statements mentioned above are to be read in conjunction with the primary annual audited financial statements of the Company, as of December 31, 1998 and their accompanying Notes.

[LETTERHEAD OF ERNST & YOUNG]

[KOST FORER & GABBAY]

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the translated U.S. dollar financial statements referred to above present fairly, in all material respects, the translated U.S. dollar financial position of the Company as of December 31, 1998 and 1997, and the related translated U.S. dollar results of its operations for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in Israel. As applicable to the Company's financial statements, accounting principles generally excepted in the United States and in Israel are substantially identical in all material respects.

Also, in our opinion, the translation of the aforementioned nominal figures into U.S. dollars was made in accordance with the principles set forth in SFAS 52, see Note 2.

The aforementioned financial statements are designated solely for you as shareholders of the Company, are not to be published or delivered to others.

Sincerely,

*/s/ KOST, FORER and GABBAY
KOST, FORER and GABBAY
Certified Public Accountants*

*(Israel)
Tel-Aviv, Israel
February 18, 1999*

Messrs. Ampal LTD

Re: Financial Statements of Shmay-Bar (T.H.) 1993 Ltd.
("the Company") translated into U.S. dollars

As you know, the Company publishes in Israel financial statements in NIS adjusted to the changes in the Consumer Price Index, in accordance with Statements of the Institute of Certified Public Accountants in Israel. These primary annual financial statements of the Company for the years 1998 and 1997, which were audited by us, and on which we expressed our opinion on February 18, 1999, have been provided to you.

We have audited the accompanying translated U.S. dollar balance sheets of the Company as of December 31, 1998 and 1997, and the related translated U.S. dollar statements of income for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors Regulations (Mode of Performance)(Israel), 1973, which do not differ in any significant respect from United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, either originating within the financial statements themselves, or due to any misleading statement included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used in and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned translated U.S. dollar financial statements have been prepared on the basis of nominal NIS historical cost. Disclosure of the effect of the changes in the general purchasing power of the Israeli currency in the financial statements as stated in the Opinions of the Institute of Certified Public Accountants in Israel, has not been included in the above mentioned statements.

Full financial statement disclosures and statements of cash flows that are as required by generally accepted accounting principles have not been presented and as such, the translated U.S. dollar financial statements mentioned above are to be read in conjunction with the primary annual audited financial statements of the Company, as of December 31, 1998 and their accompanying Notes.

[LETTERHEAD OF ERNST & YOUNG]

[KOST FORER & GABBAY]

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the translated U.S. dollar financial statements referred to above present fairly, in all material respects, the translated U.S. dollar financial position of the Company as of December 31, 1998 and 1997, and the related translated U.S. dollar results of its operations for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in Israel. As applicable to the Company's financial statements, accounting principles generally excepted in the United States and in Israel are substantially identical in all material respects.

Also, in our opinion, the translation of the aforementioned nominal figures into U.S. dollars was made in accordance with the principles set forth in SFAS 52, see Note 2.

The aforementioned financial statements are designated solely for you as shareholders of the Company, are not to be published or delivered to others.

Sincerely,

*/s/ KOST, FORER and GABBEY
KOST, FORER and GABBEY
Certified Public Accountants*

*(Israel)
Tel-Aviv, Israel
February 18, 1999*

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
Teledata Communications Ltd.

We have audited the accompanying consolidated balance sheets of Teledata Communications Ltd. (the "Company") at December 31, 1996 and 1995 and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of a consolidated subsidiary, whose assets constitute approximately 5% and 2% of the total consolidated assets at December 31, 1996 and 1995, respectively, and whose total revenues constitute approximately 11%, 13% and 22% of the consolidated total revenues for the years ended December 31, 1996, 1995 and 1994, respectively. Those statements were audited by other accountants whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the abovementioned subsidiary, is based solely on the reports of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Auditors' (Mode of Performance) Regulations (Israel), 1973. Such auditing standards are substantially identical to generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other independent auditors as stated above, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 1996 and 1995 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with accounting principles generally accepted in the United States.

/s/ BDO ALMAGOR & CO.

*BDO Almagor & Co.
Certified Public
Accountants*

Ramat-Gan, Israel,
February 16, 1997

**AUDITORS' REPORT
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
TRINET INVESTMENTS IN HIGH-TECH LTD.**

We have audited the accompanying balance sheets of Trinet Investments in High-Tech Ltd. ("the Company") as of December 31, 1998 and 1997, and the related statements of operations and changes in shareholders' deficiency for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance) - 1973, which, for purposes of these financial statements, are substantially identical to generally accepted auditing standards in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost, adjusted to reflect changes in the general purchasing power of the Israeli currency in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data, on the basis of which the adjusted financial statements of the Company were prepared, is presented in Note 8.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of its operations and changes in shareholders' deficiency for each of the three years in the period ended December 31, 1998, in accordance with generally accepted accounting principles in Israel.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we hereby state that we received all the information and explanations which we requested and that our opinion on the financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

The financial information presented in U.S. dollars and in accordance with generally accepted accounting principles in the United States is based on nominal historical amounts in Israeli currency and is presented in Note 9 to the financial statements.

*/s/ BRIGHTMAN BAR-LEVAV FRIEDMAN &
CO.
Brightman Bar-Levav Friedman & Co.
Certified Public Accountants*

Tel Aviv, February 21, 1999

173

**AUDITORS' REPORT
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
TRINET VENTURE CAPITAL LTD.**

We have audited the accompanying balance sheets of Trinet Venture Capital Ltd. ("the Company") as of December 31, 1998 and 1997, and the related statements of operations, changes in shareholders' deficiency for and cash flows each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance) - 1973, which, for purposes of these financial statements, are substantially identical to generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We did not audit the financial statements of certain subsidiaries and affiliates, the investments in which are recorded using the equity method of accounting. These financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the foregoing subsidiaries and affiliates, is based solely upon the reports of the other auditors.

The aforementioned financial statements have been prepared on the basis of historical cost, adjusted to reflect changes in the general purchasing power of the Israeli currency in accordance with pronouncements of the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data, on the basis of which the adjusted financial statements of the Company were prepared, is presented in Note 11.

In prior years the Company did not prepare consolidated financial statements to reflect a subsidiary held by the Company through December 31, 1997. Consolidated financial statements are required in accordance with Opinion No. 57 of the Institute of Certified Public Accountants in Israel.

In our opinion, based on our audits and the reports of other auditors, except for omission of consolidated financial statements through December 31, 1997 as mentioned in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of operations, changes in shareholders' deficiency and cash flows for each of the three years in the period ended December 31, 1998, in accordance with generally accepted accounting principles in Israel.

Pursuant to Section 211 of the Companies Ordinance (New Version) - 1983, we hereby state that we received all the information and explanations which we requested and that our opinion on the financial statements is given based on the best of the information and explanations which we received and as reflected in the books of the Company.

The financial information in U.S. dollars and in accordance with generally accepted accounting principles in the United States is based on nominal historical amounts in Israeli currency and is presented in Note 12. Such financial information includes investments valued at \$8,117,000 and \$10,740,000 as of December 31, 1998 and 1997, respectively (98% and 97% of total assets, respectively), whose values have been estimated by the Board of Directors and management in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors and management in arriving at their estimates of value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

*/s/ BRIGHTMAN BAR-LEVAV FRIEDMAN &
CO.*

*Brightman Bar-Levav Friedman & Co.
Certified Public Accountants*

Tel Aviv, March 10, 1999

AUDITORS' REPORT

To the shareholders of

U.D.S. ULTIMATE DISTRIBUTION SYSTEMS LTD.

We have audited the financial statements of U.D.S. Ultimate Distribution Systems Ltd. (hereafter - the Company) and the consolidated financial statements of the Company and its subsidiary balance sheets at December 31, 1996 and 1995 and statements of loss, change in shareholders' equity and cash flows for each of the years ended on those dates. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

Our audits were performed in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement, whether caused by an error in the financial statements or by misleading information included therein. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a fair basis for our opinion.

The aforementioned financial statements have been prepared on the basis of historical cost adjusted to reflect the changes in the general purchasing power of Israeli currency, in accordance with Opinions of the Institute of Certified Public Accountants in Israel. Condensed nominal Israeli currency data, on the basis of which the adjusted financial statements were prepared, are presented in note 11.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position - of the Company and consolidated - at December 31, 1996 and 1995 and the results of operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the years ended on those dates, in conformity with generally accepted accounting principles In Israel.

Accounting principles generally accepted in Israel differ in certain respects from accounting principles generally accepted in the United States. The application of the latter would have no effect on the determination of nominal/historical net income and shareholders' equity, see note 12.

The nominal Israeli currency consolidated data which are presented in note 12 have been translated into U.S. dollars for the convenience of one of the Company's shareholders, in accordance with the principles set forth in Statement No. 52 of the Financial Accounting Standards Board of the United States. The translation has been properly made.

Tel-Aviv, Israel
KESELMAN
March 5, 1997

/s/ KESSELMAN &

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 30th day of March, 1999.

AMPAL-AMERICAN ISRAEL CORPORATION

By: /s/ Yehoshua Gleitman

Yehoshua Gleitman, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 30, 1999.

Signatures -----	Title -----	Date -----
Michael Arnon	Director	
Benzion Benbassat	Director	
Yaacov Elinav	Director	
Kenneth L. Henderson	Director	
Hillel Peled	Director	
Shimon Ravid	Director	
Daniel Steinmetz	Chairman of the Board of Directors and Director	
Raz Steinmetz	Director	
/s/ Yehoshua Gleitman ----- 1999	Yehoshua Gleitman, Chief Executive Officer (Principal Executive Officer)	March 30,
/s/ Shlomo Meichor ----- 1999	Shlomo Meichor, Vice President-Finance and Treasurer (Principal Financial Officer)	March 30,
/s/ Alla Kanter ----- 1999	Alla Kanter, Vice President-Accounting and Controller (Principal Accounting Officer)	March 30,

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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

(Amounts in thousands, except per share data)

	12/31/98	12/31/97	12/31/96
Weighted average number of shares outstanding:			
4% Preferred	176	186	196
6-1/2% Preferred	944	981	1,028
Class A	23,911	23,742	20,780
Common	--	--	2,769
	=====	=====	=====
BASIC EPS			
Income (loss) from continuing operations	\$ 1,840(1)	\$ 13,832(1)	\$ (7,724)(1)
Loss from discontinued operations	--	--	(2,892)
	-----	-----	-----
Net income (loss)	\$ 1,840	\$ 13,832	\$(10,616)
	=====	=====	=====
Earnings (loss) per Class A share:			
Earnings (loss) from continuing operations	\$.08	\$.58	\$ (.33)
Loss from discontinued operations	--	--	(.12)
	-----	-----	-----
Earnings (loss) per Class A share	\$.08	\$.58	\$ (.45)
	=====	=====	=====
Shares used in calculation	23,911	23,742	23,549(2)
DILUTED EPS			
Income (loss) from continuing operations	\$ 1,841(3)	\$ 13,925(3)	\$ (7,724)(1)
Loss from discontinued operations	--	--	(2,892)
	-----	-----	-----
Net income (loss)	\$ 1,841	\$ 13,925	\$(10,616)
	=====	=====	=====
Earnings (loss) per Class A share:			
Earnings (loss) from continuing operations	\$.07	\$.50	\$ (.33)
Loss from discontinued operations	--	--	(.12)
	-----	-----	-----
Earnings (loss) per Class A share	\$.07	\$.50	\$ (.45)
	=====	=====	=====
Shares used in calculation	27,624	27,615	23,549(2)

(1) After deduction of preferred stock dividends of \$335, \$351 and \$364, respectively.

(2) Includes 2,769 shares of Common Stock.

(3) Includes decrease in net income of \$334 and \$258, respectively, due to dilution in equity in earnings of affiliate.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

**SCHEDULE SETTING FORTH THE COMPUTATION OF RATIOS
OF CONSOLIDATED EARNINGS TO FIXED CHARGES**

(Amounts in thousands, except ratios)

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
Earnings:					
Income (loss) from continuing operations (including dividends from less-than-50%-owned affiliates) before income taxes, equity in earnings of affiliates and others, and minority interests	\$ 16,526	\$ 10,290	\$ (10,539)	\$ 9,524	\$ 9,659
Fixed charges	12,410	9,396	14,286	13,169	17,149
Earnings	\$ 28,936 =====	\$ 19,686 =====	\$ 3,747 =====	\$ 22,693 =====	\$ 26,808 =====
Fixed Charges:					
Interest	\$ 12,317	\$ 9,263	\$ 14,081	\$ 12,921	\$ 16,234
Amortization of debenture expenses	93	133	205	248	915
Fixed charges	\$ 12,410 =====	\$ 9,396 =====	\$ 14,286 =====	\$ 13,169 =====	\$ 17,149 =====
Ratio of earnings to fixed charges	2.33:1 =====	2.10:1 =====	.26:1 =====	1.72:1 =====	1.56:1 =====

EXHIBIT 21 SUBSIDIARIES OF THE REGISTRANT

The following table sets forth information with respect to the subsidiaries of Ampal, their respective states of organization and the percentage of voting securities owned as of December 31, 1998:

NAME OF COMPANY -----	RELATIONSHIP TO AMPAL -----	STATE OF ORGANIZATION -----	PERCENTAGE VOTING SECURITIES OWNED BY IMMEDIATE PARENT -----
Ampal Communications, Inc.	Subsidiary	Delaware	100
Ampal Communications Holding Company Ltd.	Subsidiary of Ampal Communications, Inc.	Israel	100
Ampal Communications Limited Partnership	Subsidiary of Ampal Communications Holding Company Ltd.	Israel	100(1)
Ampal Development (Israel) Ltd.	Subsidiary of Ampal (Israel) Ltd.	Israel	90(2)
Ampal Enterprises Ltd.	Subsidiary of Ampal Development (Israel) Ltd.	Israel	99.9(3)
Ampal Financial Services Ltd.	Subsidiary of Ampal (Israel) Ltd.	Israel	51(4)
Ampal Holdings (1991) Ltd.	Subsidiary of Ampal Industries, Inc.	Israel	99.9(5)
Ampal Industries, Inc.	Subsidiary	Delaware	100
Ampal Industries (Israel) Ltd.	Subsidiary of Ampal Industries, Inc.	Israel	100
Ampal (Israel) Ltd.	Subsidiary	Israel	100
Ampal Leasing Corporation	Subsidiary	Delaware	100
Ampal Properties Ltd.	Subsidiary of Ampal Industries (Israel) Ltd.	Israel	99(6)
Ampal Protected Housing (1995) Ltd.	Subsidiary of Ampal Industries, Inc.	Israel	99.9(7)
Ampal Realty Corporation	Subsidiary of Ampal (Israel) Ltd.	New York	100
Ampal Sciences, Inc.	Subsidiary of Ampal Industries, Inc.	Delaware	100
Country Club Kfar Saba Ltd.	Subsidiary of Ampal Industries, Inc.	Israel	51
Nir Ltd.	Subsidiary of Ampal Development (Israel) Ltd.	Israel	99.96
Paradise Industries Ltd.	Subsidiary of Ampal Properties Ltd.	Israel	85.1

(1) Ampal Communications Holding Company Ltd. is the sole general partner of the limited partnership.

(2) The remaining 10% of the voting securities is owned by Ampal.

(3) The remaining .1% is owned by Nir Ltd.

(4) The remaining 49% is owned by Ampal.

(5) The remaining .1% is owned by Ampal.

(6) The remaining 1% is owned by Ampal (Israel) Ltd.

(7) The remaining .1% is owned by Ampal (Israel) Ltd.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Am-Hal Ltd., we hereby consent to the incorporation of our report dated February 16, 1999, included in Form 10-K of Ampal-American Israel Corporation for the year ended December 31, 1998, into Ampal-American Israel Corporation's previously filed Registration Statements No. 33-51023 and No. 33-55137.

*/s/ Brightman Bar-Levav Friedman &
Co.*

Brightman Bar-Levav Friedman & Co.

Certified Public Accountants

March 25, 1999

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Ampal-American Israel Corporation, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 33-51023 and 33-55137.

ARTHUR ANDERSEN LLP

New York, New York
March 25, 1999

[LETTERHEAD OF SHLOMO ZIV & CO.]

March 25, 1999

Arthur Andersen & Co.
1345 Avenue of the Americas
New York, N.Y. 10105
U.S.A.

Gentlemen,

RE: Ampal Engineering (1994) Ltd.
Consent of Independent Public Accountants

As independent public accountants of Ampal Engineering (1994) Ltd., we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements File No. 33-51023, and No. 55137.

Sincerely,

/s/ Shlomo Ziv & Co.

*Shlomo Ziv & Co.
Certified Public Accountants
(Isr.)*

[LETTERHEAD OF COHEN, EYAL, YEHOSHUA & CO.]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Ampal Enterprises Ltd. for the years 1996 and 1995, we hereby consent to the incorporation of our reports on the Financial Statements for those years included in this Form 10K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

Yours sincerely,

/s/ Cohen, Eyal, Yehoshua & Co.

*Cohen, Eyal, Yehoshua & Co.
Certified Public Accountants
(Isr.)*

March 25, 1999

[LETTERHEAD OF FAHN, KANNE & CO.]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As former independent certified public accountants of Ampal Financial Services Ltd., we hereby consent to the incorporation of our report included in FORM 10-K, into the Company's previously filed Registration Statement File No. 33-51023 and No. 55137.

/s/ Fahn, Kanne & Co.

*Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

Tel-Aviv, Israel
March 25, 1999

[LETTERHEAD OF SHLOMO ZIV & CO.]

March 25, 1999

Arthur Andersen & Co.
1345 Avenue of the Americas
New York, N.Y. 10105
U.S.A.

Gentlemen,

RE: Ampal Holdings (1991) Ltd.
Consent of Independent Public Accountants

As independent public accountants of Ampal Holdings (1991) Ltd., we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements File No. 33-51023, and No. 55137.

Sincerely,

/s/ Shlomo Ziv & Co.

*Shlomo Ziv & Co.
Certified Public Accountants
(Isr.)*

[LETTERHEAD OF FAHN KANNE & CO.]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants of Ampal Industries (Israel) Ltd., we hereby consent to the incorporation of our report included in FORM 10-K, into the Company's previously filed Registration Statement File No. 33-51023 and No. 55137.

/s/ Fahn, Kanne & Co.

*Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

Tel-Aviv, Israel
March 25, 1999

[LETTERHEAD OF HAFT & HAFT & CO.]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Ampal (Israel) Ltd. for the years 1996 and 1995, we hereby consent to the incorporation of our reports on the Financial Statements for those years included in this Form 10K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

Yours sincerely,

/s/ H.H.S.L. Haft & Haft & Co.

*H.H.S.L. Haft & Haft & Co.
Certified Public Accountants
(Isr.)*

March 25, 1999

[LETTERHEAD OF COHEN, EYAL, YEHOSHUA & CO.]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Ampal Properties Ltd. for the years 1996 and 1995, we hereby consent to the incorporation of our reports on the Financial Statements for those years included in this Form 10K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

Yours sincerely,

*/s/ Cohen, Eyal, Yehoshua & Co.
Cohen, Eyal, Yehoshua & Co.
Certified Public Accountants
(Isr.)*

March 25, 1999

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Bay Heart Ltd., we hereby consent to the incorporation of our report dated February 3, 1999, included in Form 10K of Ampal-American Israel Corporation for the year ended December 31, 1998 (relating to the financial statements of Bay Heart Ltd. not included herein) into Ampal-American Israel Corporation's previously filed Registration Statements No. 33-51023 and No. 33-55137.

*/s/ Brightman Bar-Levav Friedman &
Co.*

*Brightman Bar-Levav Friedman & Co.
Certified Public Accountants*

March 25, 1999

[LETTERHEAD OF RONEL STETTNER & CO.]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As the independent public accountants of Bay Heart Ltd. for the year 1996, we hereby consent to the incorporation of our report for the financial statements as of December 31, 1996 included in this form 10K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

/s/ Ronel Stettner & Co.

*Ronel Stettner & Co.
Certified Public Accountants
(Israel)*

March 25, 1999

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Carmel Container Systems Ltd., we hereby consent to incorporation of our report included in this Form 10K, into the Company's previously filed Registration Statement File No. 33-51023, and No-55137.

March 25, 1999

Yours truly,

/s/ KOST, FORER and GABBAY

*KOST, FORER and GABBAY
Certified Public Accountants
(Israel)*

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent certified public accountants of Coral World International Ltd., we hereby consent to the incorporation of our report dated March 26, 1997 included in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-51023 and No. 55137.

LLP

/s/ ARTHUR ANDERSEN

LLP

New York, New York

March 25, 1999

ARTHUR ANDERSEN

[LETTERHEAD OF FAHN, KANNE & CO.]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants of Coral World International Ltd., we hereby consent to the incorporation of our report included in FORM 10-K, into the Company's previously filed Registration Statement File No. 33-51023 and No. 55137.

/s/ Fahn, Kanne & Co.

*Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

Tel-Aviv, Israel
March 25, 1999

[LETTERHEAD OF PORAT & CO.]

March 25, 1999

Arthur Andersen & Co.

1345 Avenue of the Americas

New York, N.Y. 10105

Gentlemen,

Re: Consent of Independent Public Accountants of Country Club Kfar-Saba Ltd.

As independent public accountants of Country Kfar-Saba Ltd. we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

Porat & Co.

/s/ Porat & Co.

*Certified Public Accountants
(ISR.)*

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of EPSILON INVESTMENT HOUSE LTD., we hereby consent to the incorporation of our report included in Form 10K, into the Company's previously Filed Registration Statement File No. 33-51023 and No. 55137.

*/s/ Brightman, Almagor &
Co.*

*BRIGHTMAN, ALMAGOR & CO.
Certified Public
Accountants*

Date: March 25, 1999

Tirat HaCarmel, March 25, 1999

[LETTERHEAD OF KPMG]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Granite Hacarmel Investments Limited, we hereby consent to the incorporation of our report dated March 23, 1999, included in Form 10-K of Ampal American Israel Corporation, previously filed in Registration Statement File No. 33-51023, and No. 33-55137.

/s/ Somekh Chaikin

*Certified Public Accountants
(Israel)*

[LETTERHEAD OF PORAT & CO.]

March 25, 1999

Arthur Andersen & Co.
1345 Avenue of the Americas
New York, N.Y. 10105

Gentlemen,

Re: Consent of Independent Public Accountants of Hod Hasharon Sport Center (1992) Limited partnership

As independent public accountants of Hod Hasharon Sport Center (1992) Limited partnership, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

Porat & Co.

/s/ Porat & Co.

*Certified Public Accountants
(ISR.)*

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANT

As independent public accountant of Mivnat Holding Ltd., we hereby consent to the incorporation of our report included in this Form 10K, into the company's previously filed Registration Statement File No. 33-51023, and No. 55137.

*Tel-Aviv, Israel
March 25, 1999*

(Israel)

/s/ Kost, Forer and Gabbay

*KOST, FORER and GABBAY
Certified Public Accountants*

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Moriah Hotels Ltd., we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 33-55137.

*/s/ Haggai Wallenstein, Dov &
Co.*

HAGGAI WALLENSTEIN, DOV & CO.

Certified Public Accountants (Isr.)

Ramat-Gan, Israel

March 25, 1999

[LETTERHEAD OF HAFT & HAFT & CO.]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Nir Ltd. for the years 1996 and 1995, we hereby consent to the incorporation of our reports on the Financial Statements for those years included in this Form 10K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

Yours sincerely,

/s/ H.H.S.L. Haft & Haft Co.

*H.H.S.L. Haft & Haft Co.
Certified Public Accountants
(Isr.)*

March 25, 1999

[LETTERHEAD OF PRICEWATERHOUSECOOPERS]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Ophir Holdings Ltd., we hereby consent to the incorporation of our report dated March 11, 1999 on the financial statements of Ophir Holdings Ltd. included in this form 10K, into Ampal-American Israel Corporation's previously filed Registration Statement File No. 33-51023 and No. 55137.

*Tel-Aviv, Israel
Kesselman
March 25, 1999*

/s/ Kesselman &

[LETTERHEAD OF KPMG]

25 March 1999

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105
USA

Re: Consent of Independent Public Accountants

As independent public accountants of Orlite Industries (1959) Ltd., we hereby consent to the incorporation of our report, on the financial statements of the company for the year ended 31 December 1996 dated 24 February 1997, included in this Form 10K, into the Ampal American-Israel Corporation's previously filed Registration Statement File No. 33-51023, and No. 55137.

/s/ Braude Bavly

*Braude Bavly
Certified Public
Accountants*

[LETTERHEAD OF BAVLY & CO.]

EXHIBIT XIII

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Ortek Ltd., we here by consent to the incorporation of our report included in this Form 10K, into the Company's previously filed Registration Statement File No. 33-51023, and No. 55137.

*/s/ Bavly &
Co.*

Bavly & Co.

25 March 1999

[LETTERHEAD OF SHLOMO ZIV & CO.]

March 25, 1999

Arthur Andersen & Co.
1345 Avenue of the Americas
New York, N.Y. 10105
U.S.A.

Gentlemen,

Re: Paradise Industries Ltd.
Consent of independent public accountants

AS independent public accountants of Paradise Industries Ltd., we hereby consent to the incorporation of our report included in this Form 10-K, into the company's previously filed Registration Statement File No. 33-51023, and No. 55137.

Sincerely,

/s/ Shlomo Ziv & Co.

*Shlomo Ziv & Co.
Certified Public Accountants
(Isr.)*

[LETTERHEAD OF FAHN, KANNE & CO.]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants of Red Sea Marineland Holding (1973) Ltd., we hereby consent to the incorporation of our report included in FORM 10-K, into the Company's previously filed Registration Statement File No. 33-51023 and No. 55137.

*/s/ Fahn, Kanne &
Co.*

Fahn, Kanne & Co.

Certified Public Accountants (Isr.)

Tel-Aviv, Israel
March 25, 1999

[LETTERHEAD OF FAHN, KANNE & CO.]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants of Red Sea Underwater Observatory Ltd., we hereby consent to the incorporation of our report included in FORM 10-K, into the Company's previously filed Registration Statement File No. 33-51023 and No. 55137.

/s/ Fahn, Kanne & Co.

*Fahn, Kanne & Co.
Certified Public Accountants
(Isr.)*

Tel-Aviv, Israel
March 25, 1999

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of RENAISSANCE INVESTMENT CO . LTD., we hereby consent to the incorporation of our report included in Form 10K, into the Company's previously Filed Registration Statement File No. 33-51023, and No. 55137.

*/s/ Brightman, Almagor &
Co.*

*BRIGHTMAN, ALMAGOR & CO.
Certified Public
Accountants*

Date: March 25, 1999

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANT

As independent public accountant of Shmay Bar Real Estate (1993) Ltd., we hereby consent to the incorporation of our report included in this Form 10K, into the company's previously filed Registration Statement File No. 33-51023, and No. 55137.

*Tel-Aviv, Israel
March 25, 1999*

(Israel)

/s/ Kost, Forer and Gabbay

*KOST, FORER AND GABBAY
Certified Public Accountants*

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANT

As independent public accountant of Shmay Bar (T.H.) 1993 Ltd., we hereby consent to the incorporation of our report included in this Form 10K, into the company's previously filed Registration Statement File No. 33-51023, and No. 55137.

*Tel-Aviv, Israel
March 25, 1999*

(Israel)

/s/ Kost, Forer and Gabbay

*KOST, FORER AND GABBAY
Certified Public Accountants*

[LETTERHEAD OF BDO ALMAGOR & CO.]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Teledata Communications Ltd., we hereby consent to the incorporation of our report on the consolidated financial statements of Teledata Communications Ltd. dated February 16, 1997 included in this Form 10-K, into the previously filed Registration Statement File No. 33-51023 and No. 55137 of Ampal American Israel Corporation.

/s/ BDO Almagor & Co.

*BDO Almagor & Co.
Certified Public
Accountants
March 25, 1999*

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Trinet Investments in High-Tech Ltd., we hereby consent to the incorporation of our report dated February 21, 1999, included in Form 10-K of Ampal-American Israel Corporation for the year ended December 31, 1998 (relating to the financial statements of Trinet Investments in High-Tech Ltd. not included herein), into Ampal-American Israel Corporation's previously filed Registration Statements No. 33-51023 and No. 33-55137.

*/s/ Brightman Bar-Levav Friedman &
Co.*

*Brightman Bar-Levav, Friedman & Co.
Certified Public Accountants*

March 25, 1999.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of Trinet Venture Capital Ltd., we hereby consent to the incorporation of our report dated March 10, 1999, included in Form 10-K of Ampal-American Israel Corporation for the year ended December 31, 1998 (relating to the financial statements of Trinet Venture Capital Ltd, not included herein), into Ampal-American Israel Corporation's previously filed Registration Statements No. 33-51023 and No. 33-55137.

*/s/ Brightman Bar-Levav Friedman &
Co.*

*Brightman Bar-Levav Friedman & Co.
Certified Public Accountants*

March 25, 1999

[LETTERHEAD OF PRICEWATERHOUSECOOPERS]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants of U.D.S. Ultimate Distribution Systems Ltd., we hereby consent to the incorporation of our report dated March 15, 1997 on the financial statements of U.D.S. Ultimate Distribution Systems Ltd. included in this form 10K, into Ampal-American Israel Corporation's previously filed Registration Statement File No. 33-51023 and No. 55137.

*Tel-Aviv, Israel
Kesselman
March 25, 1999*

/s/ Kesselman &

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG, or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

February 15, 1999

/s/ Michael Arnon

Date

Signature

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

March 25, 1999

/s/ Benzion Benbassat

Date

Signature

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG, or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

February 7, 1999
Elinav

Date

/s/ Yaacov

Signature

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG, or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

February 5, 1999

/s/ Kenneth L. Henderson

Date

Signature

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG, or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto sold attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

February 3, 1999

/s/ Hillel Peled

Date

Signature

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG, or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

February 7, 1999

/s/ Shimon Ravid

Date

Signature

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG, or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

February 26, 1999

/s/ Raz Steinmetz

Date

Signature

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, do hereby constitute and appoint RAZ STEINMETZ, ALLA KANTER, and ELI S. GOLDBERG, or any one and or more of them, my true and lawful attorney or attorneys for me, and in my name, place and stead, as a director and/or officer of AMPAL-AMERICAN ISRAEL CORPORATION to sign the Annual Report on Form 10-K of AMPAL-AMERICAN ISRAEL CORPORATION to the Securities and Exchange Commission for the year ended December 31, 1998, and any and all amendments thereto, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the above premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

February 26, 1999

Date

/s/ Daniel Steinmetz

Signature

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	12,047
SECURITIES	239,525
RECEIVABLES	27,816
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	16,896
PP&E	42,062
DEPRECIATION	9,100
TOTAL ASSETS	329,246
CURRENT LIABILITIES	37,071
BONDS	131,010
PREFERRED MANDATORY	0
PREFERRED	5,487
COMMON	24,685
OTHER SE	130,993
TOTAL LIABILITY ANDEQUITY	329,246
SALES	6,768
TOTAL REVENUES	29,951
CGS	0
TOTAL COSTS	8,492
OTHER EXPENSES	10,488
LOSS PROVISION	0
INTEREST EXPENSE	12,317
INCOME PRETAX	(1,346)
INCOME TAX	(3,521)
INCOME CONTINUING	2,175
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,175
EPS PRIMARY	.08
EPS DILUTED	.07

End of Filing