

AMPAL-AMERICAN ISRAEL CORP
Form 10-K
March 30, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number 0-538

AMPAL-AMERICAN ISRAEL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

10022
(Zip Code)

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

Title of Each Class

Name of Each Exchange on which Registered

Class A Stock, par value \$1.00 per share

The NASDAQ Capital Market

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

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

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

Yes No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter was \$19,923,613 based upon the closing market price of such stock on that date. As of March 20, 2012, the number of shares outstanding of the registrant's Class A Stock, its only authorized and outstanding common stock, is 56,133,764.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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15.

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ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
OF AMPAL-AMERICAN ISRAEL CORPORATION

PART I

ITEM 1. BUSINESS

INTRODUCTION

As used in this annual report on Form 10-K (this "Report"), the term "Ampal" or "registrant" refers to Ampal-American Israel Corporation. The terms "Company," "we" or "us" refer to Ampal and its consolidated subsidiaries. The term "NIS" refers to New Israeli Shekels.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report (including but not limited to factors discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this Report) includes forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to the Company that are based on the beliefs of management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan," and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events or future financial performance of the Company, the outcome of which is subject to certain risks and other factors which could cause actual results to differ materially from those anticipated by the forward-looking statements, including among others, the economic and political conditions in Israel, the Middle East, including the situation in Egypt, and in the global business and economic conditions in the different sectors and markets where the Company's portfolio companies operate. These risks and uncertainties include, but are not limited to, those described in "Item 1A - Risk Factors" and elsewhere in this Report and those described from time to time in our future reports filed with the Securities and Exchange Commission ("SEC").

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

Overview

Ampal is a New York corporation founded in 1942.

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

growth potential, projected cash flow, investment size and financing, and reputable investment partners.

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

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

Significant Developments

EMG

The Company holds a 16.8% interest (8.2% of which is held directly and 8.6% of which is held through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (of which Ampal owns 50% and which is being consolidated due to effective control granted through the partnership's agreement)), as indicated on the Company's financial statements, in East Mediterranean Gas Company, S.A.E., an Egyptian joint stock company ("EMG"). Since the alleged terror attack of March 5, 2012 on GASCO's pipeline, gas to EMG and its Israeli clients has not been supplied. Since February 5, 2011, there were several explosions, due to alleged terror attacks, along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company and EMG's gas supplier). In addition to the attacks on the GASCO facilities, on July 30, 2011, in the wake of violent incidents in El-Arish, Egypt, there was an attempt to damage EMG's site near El-Arish. The security forces on site returned fire, prevented any penetration of the EMG site and repelled the attack. Neither EMG's site nor EMG's pipeline were damaged in any of the attacks. Due to the alleged terror attacks, from February 5, 2011 to March 28, 2012, the supply of gas to EMG, and therefore to EMG's Israeli clients, was interrupted several times. During the calendar year 2011, no gas was supplied for an aggregate of 225 days, and during 2012, gas was not supplied for an aggregate of 64 days between January 1, 2012 and March 28, 2012.

Our investment in EMG had a carrying amount of \$361.3 million as of December 31, 2010. It was written down to its fair value of \$260.4 million, resulting in a loss of \$100.9 million, which was included in loss for the year ended December 31, 2011. The carrying value of EMG is based, among other things, on nonpublic information.

Restructuring of Certain Indebtedness

On December 19, 2011, the Company announced that due to the current political and security situation in Egypt, including the repeated interruptions of the gas supply to EMG, the Company requested that the Trustees of its Series A, Series B and Series C Debentures, which are listed on the Tel Aviv Stock Exchange (the "Debentures"), convene a meeting of the holders of the Debentures (the "Holders") on January 1, 2012 to appoint a Holders' committee to discuss a proposal to postpone the principal payments due on the Debentures for 24 months.

On January 1, 2012, the Company held a meeting with the Holders where the Company proposed to restructure (the "Proposal") the Debentures to postpone all principal payments due thereunder for the next two years, while continuing to make the interest payments as scheduled. Under the Proposal, the principal amount of the Debentures would not be reduced, and after the two-year period the principal payment schedule for the Debentures would return to the original terms. The Company requested that the Holders appoint a delegation (a committee of representatives) of Holders to discuss the Proposal.

On January 18, 2012, the Company announced that two separate Holders' committees had been formed: one to represent the Series A and Series C Debenture holders and the other to represent the Series B Debenture holders (the "B Holders").

On January 22, 2012, the Company announced that its Board of Directors decided to postpone making the principal payments currently coming due on the Debentures, but to continue making interest payments as scheduled. In accordance with the decision, on January 31, 2012, the Company made an interest payment on the Series B

Debentures (the "Series B Debentures") to the B Holders on the scheduled payment date, and the Company did not request the return of the Company's funds held by the trustee for the B Holders.

On February 20, 2012, a meeting of the B Holders was held at the request of the B Holders' trustee and on March 6, 2012, the B Holders voted (the "Series B Resolution") to accelerate and set to immediate repayment the entire outstanding amounts under the Series B Debentures. The Series B Resolution provided that the acceleration would be effective two weeks after March 6, 2012, unless an additional two-week extension was granted by the committee, formed by the B Holders (the "Series B Committee") to represent the B Holders. Such extension was granted on March 20, 2012. Additional postponements of the effective date of the acceleration of the Series B Debentures are possible subject to the approval of the majority of the B Holders. As of March 12, 2012, due to the acceleration, the total amount outstanding (including interest) under the Series B Debentures (excluding the Series B Debentures held by the Company) is NIS 527,024,735 (approximately \$138.4 million).

Additionally, the B Holders voted to authorize the commencement of legal actions and other measures, at the discretion of Clal Finance Trusts 2007 Ltd., the trustee for the B Holders, and/or at the recommendation of the Series B Committee, to collect the principal payment which was due on January 31, 2012 and which the Company did not make. The B Holders also voted to empower the Series B Committee to continue negotiations with the Company to settle payments to the B Holders and/or to restructure the Series B Debentures, to protect the rights of the B Holders and to receive all required information from the Company regarding its financial status and its ability to meet its obligations.

On March 5, 2012, the Company announced that its Board of Directors decided that the Company intended to make an interest payment which was due to be paid to the Series C Debenture holders on March 7, 2012 (the "Series C Interest Payment"), if the Series B Resolution was not approved. The Board further decided that if the Series B Resolution was approved (as it was approved on March 6, 2012, as described above), the Series C Interest Payment would be postponed until it was clear to the Company whether the Series B Resolution to accelerate the Company's entire debt owed to the B Holders and set it to immediate payment would be enforced.

On March 26, 2012, the Company announced that the Series C Interest Payment will be paid on March 29, 2012 by transferring funds that are deposited with the trustee for the Series C debenture holders, in favor of the Series C debenture holders, and in accordance with the resolution of the Series C debenture holders of March 22, 2012.

A meeting of the Series A and Series C Debenture holders is scheduled to be held on April 3, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda is a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures.

Presently, the Company does not have sufficient cash and other resources to service its debt and finance its ongoing operations. This fact raises substantial doubts as to the Company's ability to continue as a going concern if the Company does not reach agreement with the debenture holders, obtain additional financing or otherwise raise capital through the sale of assets or otherwise. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Management is in the process of negotiations with the Holders' committees to restructure the debt to its Series A, Series B and Series C Debenture Holders, but there is no assurance that the negotiations will succeed.

Investee Companies by Industry Segment

Listed below by industry segment are all of the substantial investee companies in which Ampal had ownership interests as of December 31, 2011, the principal business of each and the percentage of equity owned, directly or indirectly, by Ampal. Further information with respect to our significant investee companies is provided below the following table. For industry segment financial information and financial information about foreign and domestic operations, see Note 18 to Ampal's consolidated financial statements included in this Report on Form 10-K for the fiscal year ended December 31, 2011.

| Industry Segment | Principal Business | Percentage as of December 31, 2011 |
|---|---|---|
| Chemicals | | |
| Gadot Chemical Tankers and Terminals Ltd. | Chemical Sales, Storage, Shipping, Transport and Distribution | 100.0 |
| Energy | | |
| East Mediterranean Gas Company | Natural Gas Provider & Pipeline Owner | 12.5(1) |
| Global Wind Energy | Renewable Energy | 50.0 |
| Real Estate | | |
| Bay Heart Ltd. | Shopping Mall Owner/Lessor | 37.0 |

Leisure-Time

| | | |
|-----------------------------|-----------------------|------|
| Country Club Kfar Saba Ltd. | Country Club Facility | 51.0 |
|-----------------------------|-----------------------|------|

Finance

| | | |
|----------------------------|-----------------|-------|
| Ampal Energy Ltd. | Holding Company | 100.0 |
| Merhav Ampal Group Ltd. | Holding Company | 100.0 |
| Ampal (Israel) Ltd. | Holding Company | 100.0 |
| Ampal Holdings (1991) Ltd. | Holding Company | 100.0 |

(1)8.2% of which is held directly and 4.3% of which is held through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership, which is a joint venture between Ampal, the Israel Infrastructure Fund and other institutional investors.

Chemicals

Gadot

General

Gadot Chemical Tankers and Terminals Ltd. (“Gadot”), a wholly owned subsidiary of Ampal (99.99% on a fully diluted basis), was founded in 1958 as a privately held Israeli company with operations in distribution and marketing of liquid chemicals for raw materials used for industrial purposes. Since then, Gadot has expanded into a group of companies, which currently forms Israel’s leading chemical distribution organization. Through its subsidiaries, Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to countries across the globe, with an emphasis on Israel and Western Europe. In our description of Gadot’s business operations, the term “Gadot” refers to Gadot and its consolidated subsidiaries. Gadot listed its shares for trade on the Tel Aviv Stock Exchange (“TASE”) in 2003 and was delisted from trade on October 16, 2008, following Ampal’s successful tender offers to purchase Gadot’s shares not already owned by Ampal.

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

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

- Importing, marketing and sale of chemicals and other raw materials in Israel and Europe;
- Shipping, primarily between the European ports of the Atlantic Ocean and the Mediterranean seaport and agency services for several shipping companies and docked ships; and
- Logistical services in Israel and Europe.

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

Gadot’s revenues for 2011 totaled approximately \$541 million compared to approximately \$497 million in 2010. The 9% increase in revenues is mainly the result of the following factors:

- Signs of growth in the markets, especially in Israel, led to an increase in sold quantities;
- Gadot’s sale prices increased as a result of a general increase in commodity prices and newly negotiated contracts; and
- Gadot’s acquisition of two companies: Merhav Agro Ltd. and ADPO Ghent N.V. contributed to the revenues.

Importing, Marketing and Sale of Chemicals and Other Raw Materials

Gadot imports, markets and sells chemicals and other raw materials, primarily liquid chemicals which are imported in tanker ships and via other methods. These chemicals and other materials are used as raw materials in the medical,

cosmetics, paint, plastic, electronics, agriculture, food and other industries. Other activities of Gadot in this sector include:

- sale and marketing of oils and other liquid products which are used as food additives in soft drinks, meat and poultry;
- operating a sales agency in Israel representing well-known manufacturers, selling a wide range of products, including chemicals, active medicinal agents, electronic components, rubber, polymers, minerals and materials for the textile and paint industry;
 - sale and marketing of plant protection products, plant growth regulators and seeds;
- sale and marketing of fine chemical agents used in research laboratories and biochemical industries and marketing of laboratory equipment; and
 - sale and marketing of inorganic chemicals.

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

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

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

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

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

- its ability to provide full door-to-door logistical services to its customers, from purchase, shipping and storage, to land transport to the customer's factory;
- its ability to purchase and maintain surplus in large quantities of different chemicals ready for sale in a variety of packaging types and sizes;
 - ownership of the only chemical fluids terminal in Israel, capable of providing storage and transport;
 - decades of experience in the field;
 - stable, long-term relationships with existing customers;
 - the quality of products supplied by it and the reputation and goodwill of its suppliers; and
 - professional support provided by suppliers and by Gadot for its products.

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

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

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

Shipping

Gadot provides its customers (including subsidiaries within the Gadot group of companies) with shipping services, shipping liquid chemicals in tanker ships both to and from Israel. As of December 31, 2011, Gadot uses a fleet of 9 vessels, of which 7 are leased and 2 are owned by Gadot, with loading capacities ranging from 8,000 tons to 17,000 tons. The total capacity of Gadot's fleet as of December 31, 2011, was approximately 106,450 tons. The main shipping lines operated by Gadot are Israel to Northern Europe and Israel to the United States, with many interim stops in Europe's Atlantic seaports and in Mediterranean seaports. Gadot also provides logistical support for ships anchored in the ports of Haifa and Ashdod in Israel. These services include coordination of all technical procedures while in port, such as payment of port fees, care of the crew and providing ships with supplies.

Gadot had contracted a shipyard for the construction of four additional vessels built with a loading capability of 16,600 tons each, in exchange for consideration of approximately \$27 million per vessel. Construction on the first vessel commenced at the end of December 2010 but has not been delivered yet. Due to the fact that the delivery of all vessels was not completed on the contractual delivery dates and such construction was delayed beyond the permitted grace period, Gadot has cancelled all shipbuilding contracts (in accordance with the terms of the contracts) and has demanded the refund of all amounts paid to the builder on account of the purchase price of the vessels plus interest at the agreed annual rate of 6% pursuant to the terms of the contracts. These amounts are secured by refund guarantees issued by the Bank of China Ltd. The builder has disputed the cancellation of the contracts and has referred the matter to LMAA arbitration in London (in accordance with the terms of the contracts). In such cases the obligation of the Bank of China to make payments under its guarantees is suspended pending the arbitration award or judgment on appeal. Both parties have filed LMAA Questionnaires and Gadot has filed Requests for Further Information which still remain unanswered (the deadline for replying to said requests has been set by the arbitration tribunal to be March 23, 2012). The next step is to set dates for hearings. Following an application by Gadot to set hearing dates, the arbitration tribunal has decided that the hearing dates will be November 5-17, 2012.

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

During 2008 shipping prices gradually rose, although they decreased towards the end of the year. The price of ship fuel rose during the first half of 2008 and decreased substantially during the second half of the year. During 2009 the chemical carrier sector suffered from limited growth in demand and stagnant freight rates which resulted in decreased profitability. In 2010 rates were at or above 2009 levels and earnings were down as a consequence of higher bunker prices, reflecting eroded fundamentals – in particular the impact of the downturn in the products carrier market since the beginning of 2009.

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

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

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

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

fees, time tables, jurisdiction and insurance. These contracts also incorporate by reference the provisions of certain standardized shipping contracts.

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

Agency Services for Shipping Companies and Docked Ships

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

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

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

ISO-Tank Transportation

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

Gadot currently owns 192 ISO-tanks and it leases additional ISO-tanks from external sources from time to time in order to meet customer demand. Gadot also leases ISO-tanks to third parties, which include heating systems and upper or lower off-loading apparatuses, as needed.

Logistical Operations in Europe

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

The services provided by Gadot in this sector include:

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

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

Gadot owns and operates a chemical storage terminal over an area of 25 hectares of land, with a storage capacity of approximately 100,000 cubic meters.

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

This sector has experienced growth in recent years in Western Europe, since an increasing number of companies and manufacturers prefer to outsource their logistical operations due to the strict regulatory requirements. During 2011, this sector enjoyed overall growing demand.

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

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

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

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

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

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

Logistical Operations in Israel

The logistical services provided by Gadot in Israel include:

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

Land Transport

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

Gadot currently owns a fleet of 39 tanker trucks and 79 trailers (of which 47 trailers are capable of transporting hazardous materials). The fleet of tanker trucks is generally in full use by Gadot, which occasionally is required to lease additional tanker trucks from other companies in order to fulfill demand. The trailer fleet is generally not in full use due to the number of tanker trucks Gadot owns and the highly specialized purpose of each trailer.

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

Storage, Loading and Off-Loading of Materials

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

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

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

On November 17, 2011, Gadot, through its subsidiary, completed the purchase of 65% of the outstanding share capital of Agrinet Central Europe Ltd ("ACE"), an Israeli company which operates mainly in Eastern Europe in the agriculture field, for a purchase price of \$2.67 million. Pursuant to the purchase agreement, Gadot was granted with a call option and the seller was granted with a put option for the remaining shares of ACE. Gadot also granted the seller an irrevocable option to purchase one of ACE's real estate properties in exchange for consideration of \$70,000 and certain priority in the distribution of dividends by Gadot. Part of the purchase price was financed by Gadot's own resources and the remainder by taking a long-term loan from a third party.

Energy

EMG

EMG, organized in 2000 in accordance with the Egyptian Special Free Zones system, has been granted the right to export 7.0 BCM/year of natural gas from Egypt to Israel, other locations in the East Mediterranean basin and to other countries. EMG linked the Israeli energy market with the Egyptian national gas grid via an East Mediterranean pipeline. Initial gas delivery occurred in May 2008. EMG is the developer, owner and operator of the pipeline and its associated facilities on shore in both the point of departure at El-Arish, Egypt and the point of entry in Ashkelon, Israel.

As of today, EMG has entered into gas supply contracts as detailed in the following table:

| Client | Billion Cubic Meters ("BCM") (annually) | Term |
|-------------------------|--|---------------------|
| Israel Electric Corp. | 2.1 | 15 years (+5 years) |
| Israel Corporation Ltd. | 1.4 | 20 years |
| Dorad Energy Ltd. | 0.75 | 17 years (+5 years) |
| Other Contracts | 0.55 | |
| Total | 4.8 | |
| Signed Options | 1.5 | |
| Total including Option | 6.3 | |

As of January 2011 and until an alleged terror attack on GASCO's pipeline on February 5, 2011, EMG supplied natural gas to its clients at an annual rate of 2.5 BCM (EMG's gas supply contracts include provisions to gradually building up the gas supply over the term of each agreement). Since the alleged terror attack of March 5, 2012 on GASCO's pipeline, gas to EMG and its Israeli clients has not been supplied. Since February 5, 2011, there have been several explosions, due to alleged terror attacks, along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company and EMG's gas supplier). In addition to the attacks on the GASCO facilities, on July 30, 2011, in the wake of violent incidents in El-Arish, Egypt, there was an attempt to damage EMG's site near El-Arish. The security forces on site returned fire, prevented any penetration of the EMG site and repelled the attack. Neither EMG's site nor EMG's pipeline were damaged in any of the attacks. Due to the alleged terror attacks, from February 5, 2011 through March 28, 2012, the supply of gas to EMG, and therefore to EMG's Israeli clients, have been interrupted several times.

During the 2011 calendar year, no gas was supplied for an aggregate of 225 days, and during 2012, gas was not supplied for an aggregate of 64 days between January 1, 2012 and March 28, 2012.

EMG's project is governed by an agreement signed between Israel and Egypt which designates EMG as the authorized exporter of Egyptian gas, secures EMG's tax exemption in Israel and provides for the Egyptian government's guarantee for the delivery of the said 7 BCM/year gas to the Israeli market.

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

Ampal for its December 2006 purchase of EMG shares from Merhav.

As of December 31, 2011, the Company's financial statements reflect a 16.8% interest in shares of EMG, with 8.2% held directly and 8.6% held through the Joint Venture (of which Ampal owns 50%). For more information concerning our interest in EMG, please see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

As a result of the continued interruption of gas supply to EMG and the delivery of gas to EMG below contracted quantities, the international shareholders of EMG, including Ampal, have commenced procedures under applicable bilateral investment treaties between their countries and Egypt. Such procedures may ultimately result in the arbitration of claims under the various treaties or other agreements.

Ampal has also been advised by EMG of EMG's following legal proceedings:

1. EMG filed a Request for Arbitration against Egyptian General Petroleum Corporation ("EGPC") and Egyptian Natural Gas Holding Company ("EGAS") (collectively, "EGPC/EGAS") on October 7, 2011. EGPC and EGAS are Egyptian state-owned entities responsible for the development and transportation of Egypt's hydrocarbon resources. EMG and EGPC/EGAS entered into a Gas Supply and Purchase Agreement on July 13, 2005, as amended (the "Source Contract"). Through its Request for Arbitration, EMG seeks, in part, to enforce its rights to quantities of natural gas provided for in the Source Contract and to secure damages for EGPC/EGAS's failure to supply contractual quantities.

EMG has named the Israel Electric Corporation, Ltd. ("IEC") as an additional respondent. IEC is an Israeli state-owned electricity producer that entered into a Gas Sale and Purchase Agreement with EMG on August 8, 2005, as amended (the "On-Sale Agreement"). Under the On-Sale Agreement, EMG promised to supply, and IEC promised to purchase, quantities of natural gas sold to EMG under the Source Contract; those quantities were in turn guaranteed by EGPC/EGAS through a Tripartite Agreement entered into by EMG, IEC and EGPC/EGAS on June 13, 2005 (the "Tripartite Agreement"). Therefore, EGPC/EGAS guaranteed that it would provide contractual quantities of gas to EMG (for sale to IEC) under both the Source Contract and the Tripartite Agreement. EMG also filed for declaratory relief ensuring that EGPC/EGAS, and not EMG, are liable to IEC for supply deficiencies.

The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of possible gain.

2. On September 21, 2011, EMG filed a Request for Arbitration against IEC as a sole respondent. In that arbitration, EMG seeks declaratory relief that IEC is not entitled to claim shortfall penalties from EMG as a result of EGPC/EGAS's breaches of the Source Contract and the Tripartite Agreement. EMG also seeks a declaration that it may seek out additional customers, and renew contracts with existing customers, without breaching the On-Sale Agreement. The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of possible gain.

3. The Company and other EMG shareholders have issued letters to the Government of the Arab Republic of Egypt seeking consultation relative to several bilateral investment treaties. No formal arbitration proceedings have yet begun for EMG's investors under these treaties. The claim relates to the same subject matter described above, and rests on the assertion that the conduct of Egypt and its state-owned entities (including EGPC/EGAS) constitutes a violation of the substantive protections found in the applicable investment protection treaties. Should no amicable solution to this dispute be reached, the Company plans to initiate arbitration against the Government of Egypt seeking compensation for the damage caused to its investment in EMG.

Global Wind Energy Ltd. ("GWE")

In November 2007, Ampal, through its indirect wholly owned subsidiary Merhav-Ampal Group Ltd. (f/k/a Merhav Ampal Energy Ltd.) ("MAG") and Clal Energy, LP ("Clal"), an Israel-based limited partnership, formed GWE, a company that focuses on the new development and acquisition of controlling interests in renewable energy, including wind energy projects outside of Israel. GWE, owned equally by Clal and the Company through MAG, seeks to either develop or acquire wind energy opportunities. GWE's current projects are the development of wind farms in Greece and Poland. As of December 31, 2011, GWE received a production license for 2 projects for a total capacity of approximately 60 mega watt ("MW") wind farms, and a 20MW photovoltaic project, all in Greece.

As of December 31, 2011, the Company has cumulatively invested \$5 million in GWE, which is included as an investment in our financial statements.

Sugarcane Ethanol Production Project

As summarized in the Company's previously filed annual and periodic reports, on December 31, 2009, Ampal signed an option exercise agreement (the "Exercise Agreement") with Merhav pursuant to which it exercised, subject to certain conditions, its option (the "Option") to convert Ampal's existing loan to Merhav (consisting of \$20 million of principal plus accrued interest) (the "Loan") into a 25% equity interest in the sugarcane ethanol production project in Colombia (the "Project") being developed by Merhav. The Loan is secured by Merhav's pledge of its shares of Class A Stock of Ampal and guaranteed by Mr. Yosef A. Maiman's personal guaranty.

Pursuant to the Exercise Agreement, the conversion of the Loan into a 25% equity interest in the Project will take the form of the issuance to Ampal of 25% of all of the issued and outstanding equity interests in Merhav Renewable Energies Limited, a Cyprus corporation and subsidiary of Merhav ("Merhav Energies"). The purchase price for the 25% equity stake in Merhav Energies, to be paid at closing, is the outstanding balance of the Note on December 31, 2009, or approximately \$22.3 million. This amount is included in Deposits and notes receivable on the Company's balance sheet. The closing of the purchase of the 25% equity stake and the conversion of the Loan is subject to, among other things, (i) the initial disbursement of (or other evidence of) long-term debt financing for the Project obtained from a financing bank or any other unaffiliated third party lender (the date such financing is obtained, the "Qualified Financing Date"), (ii) the payment in full of all outstanding amounts due and payable under the Note, and (iii) the delivery at closing of the Shareholders' Agreement (as defined below) by Merhav and Ampal, setting forth certain agreements relating to the governance of Merhav Energies. Additionally, Merhav and Ampal have agreed that, under certain circumstances, each will arrange for loans to Merhav Energies from time to time through third parties, directly or indirectly, for up to \$15 million. The Exercise Agreement contains other customary closing conditions, as well as customary representations and warranties.

The closing was to occur on the Qualified Financing Date or as soon as practicable thereafter, but no later than December 31, 2010 (the "Termination Date"). Since the Qualified Financing Date did not occur prior to December 31, 2010, on December 31, 2010, the parties amended the Exercise Agreement such that the Termination Date and the maturity date of the Note was extended to December 31, 2011. Additionally on December 31, 2010, all the rights and obligations of Ampal in the Project were assigned to MAG. Since the Qualified Financing Date was not likely occur prior to December 31, 2011, on November 12, 2011, the Special Committee of the Board of Directors of Ampal approved the amendment of the Exercise Agreement such that the Termination Date and the maturity date of the Note would be extended to December 31, 2012 and on December 8, 2011, the parties signed such amendment.

As stated above, as a condition to closing Ampal's purchase of a 25% equity stake in Merhav Energies, Merhav, Ampal and Merhav Energies will enter into a Shareholders' Agreement (the "Shareholders' Agreement"), to provide for, among other things, (i) restrictions on the transfer of shares of Merhav Energies, (ii) a right of first refusal on transfers of shares of Merhav Energies, (iii) tag-along and drag-along rights on the transfer of shares of Merhav Energies, (iv) preemptive rights on the issuance of new shares of capital stock (or other equity interest) by Merhav Energies, subject to the anti-dilution rights of Ampal, and (v) the right of Ampal to designate 25% of the directors of Merhav Energies. In addition to preemptive rights under the Shareholders' Agreement, Ampal has been granted anti-dilution protection, which may result in the issuance of additional shares of Merhav Energies to Ampal, in the event that, prior to end of the 180-day period following the commencement of the Project's operations, Merhav sells, or Merhav Energies issues, shares of Merhav Energies at a per share price that is less than the per share price paid by Ampal under the Exercise Agreement.

Merhav is a multinational corporation with interests in a range of sectors, including energy, infrastructure projects and agriculture. Merhav is a controlling shareholder of Ampal and is wholly owned by Mr. Yosef A. Maiman, the President, CEO and member of the controlling shareholder group of Ampal. Because of the foregoing relationship, a special committee of the Board of Directors of Ampal composed of Ampal's independent directors negotiated and approved the transaction. Houlihan Lokey Financial Advisors, Inc., which has been retained as financial advisor to the special committee, advised the special committee on this transaction.

Telecommunications – 012 Smile

As a result of the sale of 012 Smile Telecom Ltd. ("012 Smile") to Partner Communications Company Ltd. (the "012 Sale"), the results of operations of 012 Smile are reported as discontinued operations and the consolidated results from continuing operations do not include revenues and expenses attributable to 012 Smile. The operations of 012 Smile comprised, until consummation of the 012 Sale, one of our principal activities during most of 2010. As a result of the 012 sale, the Company no longer has a Telecommunications segment.

Real Estate – Bay Heart

Bay Heart Ltd. ("Bay Heart") was established in 1987 to develop and lease a shopping mall by the name of Cinemall (the "Mall") in the Haifa Bay area. Haifa is the third largest city in Israel. The Mall, which opened in May 1991, is a three-story facility with approximately 280,000 square feet of rentable space. The Mall is located at the intersection of two major roads and provides a large mix of retail and entertainment facilities. In 2008, the Mall completed extensive renovations, including the construction of a new complex of 23 movie theaters and entertainment facilities. The Company owns 37% of Bay Heart.

Leisure-Time – Country Club

Country Club Kfar Saba Ltd. ("Kfar Saba") operates a country club facility (the "Club") in Kfar Saba, a town north of Tel Aviv. Kfar Saba holds a long-term lease to the real estate property on which the Club is situated. The Club's

facilities include swimming pools, tennis courts and a club house.

The Club, which has a capacity of 2,000 member families, operated at full capacity for the 2011 season. The Company owns 51% of Kfar Saba.

EMPLOYEES

The executive officers of Ampal are listed in “Item 10-Directors, Executive Officers and Corporate Governance” below.

As of December 31, 2011:

- Ampal (Israel) Ltd. had 24 employees;
- Gadot had 881 employees; and
- Kfar Saba had 6 employees and 97 hourly based employees.

Relations between the Company and its employees are satisfactory.

CONDITIONS IN ISRAEL

Most of the companies in which Ampal directly or indirectly invests conduct their principal operations in Israel and are directly affected by the economic, political, military, social and demographic conditions there. A state of hostility, varying as to degree and intensity, exists between Israel and the Arab countries and the Palestinian Authority (the “PA”). Israel signed a peace agreement with Egypt in 1979 and with Jordan in 1994. Since 1993, several agreements have been signed between Israel and Palestinian representatives regarding conditions in the West Bank and Gaza. While negotiations have taken place between Israel, its Arab neighbors and the PA to end the state of hostility in the region, it is not possible to predict the outcome of these negotiations and their eventual effect on Ampal and its investee companies. Hamas, an Islamist movement, won the majority of the seats in the Parliament of the PA in January 2006 and took control of Gaza by force in June 2007. During the summer of 2006, Israel waged a war with the Hezbollah movement in Lebanon, which involved thousands of missile strikes in Northern Israel. Since June 2007, thousands of missiles have been fired from Gaza at population centers in southern Israel, leading to an armed conflict between Israel and Hamas in January 2009. In the meantime, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. More recently, in early 2011, riots in Tunisia, Egypt and Libya have led to severe political instability in these and other countries in the Middle East. This security situation has had, and may in the future have, an adverse effect on Israel’s economy, primarily in the relevant geographic areas. See “Item 1A - Risk Factors” below for a further discussion of the possible impact of the political and military situation in Israel and the Middle East on the Company.

All male adult citizens and permanent residents of Israel under the age of 45 are obligated, unless exempt, to perform military reserve duty annually. Additionally, all these individuals are subject to being called to active duty at any time under emergency circumstances. Some of the officers and employees of Ampal’s investee companies are currently obligated to perform annual reserve duty. While these companies have operated effectively under these requirements since they began operations, Ampal cannot assess the full impact of these requirements on their workforce or business if conditions should change. In addition, Ampal cannot predict the effect on its business in a state of emergency in which large numbers of individuals are called up for active duty.

CERTAIN UNITED STATES AND ISRAELI REGULATORY MATTERS

SEC Exemptive Order

In 1947, the SEC granted Ampal an exemption from the Investment Company Act of 1940, as amended (the “1940 Act”), pursuant to an Exemptive Order. The Exemptive Order was granted based upon the nature of Ampal’s operations, the purposes for which it was organized, which have not changed, and the interest of purchasers of Ampal’s securities

in the economic development of Israel. There can be no assurance that the SEC will not reexamine the Exemptive Order and revoke, suspend or modify it. A revocation, suspension or material modification of the Exemptive Order could materially and adversely affect the Company unless Ampal obtains other appropriate exemptive relief. In the event that Ampal becomes subject to the provisions of the 1940 Act, it could be required, among other matters, to make changes, which might be material, to its management, capital structure and methods of operation, including its dealings with principal shareholders and their related companies.

ISRAELI TAX INFORMATION

Ampal (to the extent that it has income derived in Israel) and Ampal's Israeli subsidiaries are subject to taxes imposed under the Israeli Income Tax Ordinance. The corporate tax rate in Israel was 24% for the 2011 tax year and was scheduled to be further reduced over the next years. However, in December 2011 the Israeli Knesset approved an amendment to tax laws according to which, among others, from 2012 onwards the corporate income tax rate will be 25%. The Israeli tax rate on capital gains derived by a corporation after January 1, 2003, is generally equal to the corporate tax rate in the tax year it is derived, e.g., 24% for the 2011 tax year and 25% for the 2012 tax year as stated above. However, certain exemptions from capital gains tax may apply to non-Israeli resident corporations.

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

Under Israeli domestic law, Ampal, as a non-resident, is generally subject to withholding tax at a rate between 20% and 25% and from 2012 onwards a rate between 25% and 30% on dividends it receives from Israeli companies, or 20% and from 2012 onwards 25% for dividends received from Israeli publicly traded companies. These rates may be reduced to either 15% or 12.5% (under Israeli law and/or the provisions of the Treaty), depending on the ownership percentage in the investee company, and on the type of income generated by such investee company from which the dividend is distributed. By contrast, dividends received by one Israeli company from another Israeli company are generally exempt from Israeli corporate tax, unless (i) they arise from income generated from sources outside of Israel, in which case they are generally subject to corporate tax rate (certain tax credits may be available for taxes paid or withheld at source) or (ii) they are paid out of the profits of an "approved enterprise" to either residents or non-residents, in which case taxes may be withheld at a rate of 15%.

Pursuant to an arrangement with the Israeli tax authorities, Ampal's income from Israeli sources has been taxed based on principles generally applied in Israel to income of non-residents. Ampal has filed agreed upon tax returns with the Israeli tax authorities through the tax year 2010. Based on the tax returns filed by Ampal through 2010, it has not been required to make any additional tax payments in excess of the tax withheld on dividends it has received. In addition, pursuant to Ampal's arrangement with the Israeli tax authorities, the aggregate taxes paid by Ampal in Israel and in the United States on interest, rent and dividend income derived from Israeli sources has not exceeded the tax which would have been payable by Ampal in the United States had such interest, rent and dividend income been derived by Ampal from United States sources. There can be no assurance that this arrangement will continue to be in effect in the future. This arrangement does not apply to the taxation of Ampal's Israeli subsidiaries.

Generally, under the provisions of the Israeli Income Tax Ordinance, taxable income from Israeli sources paid to non-residents of Israel by residents of Israel is subject to withholding tax at the rate of 25% (except as stated above), unless a specific exemption is available. However, such rate of withholding tax may be reduced under the Treaty, with respect to certain payments made by Israeli tax residents to U.S. tax residents that qualify for benefits of the Treaty. For example, under the Treaty, the rate of withholding tax applicable on interest is generally reduced to 17.5%. Amendment No. 169 to the Israeli Income Tax Ordinance, effective from January 1, 2009, introduced an exemption from Israeli tax on interest paid to non-residents of Israel on bonds traded on the TASE, provided certain conditions are met. The continued tax treatment of Ampal by the Israeli tax authorities in the manner described above is based, among other things, on Ampal continuing to be treated, for tax purposes, as a non-resident of Israel that is not doing business in Israel.

Under Israeli law, Israeli tax residents are taxed on capital gains generated from sources in Israel or outside of Israel, whereas non-residents are taxable only with respect to gains generated from sources in Israel unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. Capital gains are generally regarded as being from Israeli sources if arising from the sale of assets either located in Israel or which represent a right to assets located in Israel (including gains arising from the sale of shares in companies resident in Israel, and of rights in non-resident entities that mainly represent ownership and rights to assets located in Israel, with regard to such assets). Under the Treaty, U.S. tax residents are subject to Israeli capital gains tax on the sale of shares in Israeli companies if they have held 10% or more of the voting rights in such companies at any time during the 12 months immediately preceding the sale. Since January 1, 1994, the portion of the gain attributable to inflationary differences prior to that date is taxable at a rate of 10%, while the portion of the gain attributable to inflationary differences between such date and the date of disposition of the asset is exempt from tax. The remainder of the gain ("Real Capital Gain"), if any, is taxable to corporations at the corporate tax rate, e.g., 24% for the 2011 tax year and 25% for the 2012 tax year as stated above. However, according to the Israeli tax ordinance, foreign residents are generally exempt from tax on gains from the sale of shares in publicly traded companies if the capital gain was not

generated from their permanent establishment in Israel. According to Section 68A(a) of the Israeli Income Tax Ordinance, non-Israeli corporations are not entitled to any such exemption as mentioned above from Israeli capital gains tax if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Individuals and companies in Israel pay value added tax (“VAT”) at a rate of 16% of the price of assets (excluding shares) sold and services rendered. In computing its VAT liability, certain of Ampal’s Israeli subsidiaries may be entitled to claim as a deduction input VAT they have incurred with respect to goods and services acquired for the purpose of their business, to the extent such transactions are subject to VAT.

UNITED STATES FEDERAL TAXATION OF AMPAL

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

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

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

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

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

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax expense on book income as adjusted for permanent and temporary differences resulting from differing treatment of items for tax and financial accounting purposes. The temporary differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be

recovered from future taxable income, and, to the extent we believe that recovery is not "more-likely-than-not," we must establish a valuation allowance. To the extent we establish (or release) a valuation allowance or increase (or decrease) this allowance in a financial accounting period, we must include an income tax expense (or benefit) within the tax provision in the statement of operations. A partial valuation allowance is currently set against certain tax assets because management believes it is more likely than not that some of these deferred tax assets will not be realized through the generation of future taxable income. We have not provided a full valuation allowance against our deferred tax assets due to a strategy that provides us the opportunity to sell certain appreciated investments and which is projected to provide adequate U.S. taxable income against which we expect to be able to offset with our net operating loss carryover. We have the intent and ability to sell such appreciated investments prior to the expiration of the net operating loss and thus we expect to realize the related deferred tax assets.

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

We also account for uncertain tax positions in accordance with ASC 740-10 (formerly FIN 48). The application of income tax law is inherently complex. As such, we are required to make many assumptions and judgments regarding our income tax positions and the likelihood of such tax positions being upheld if challenged by applicable tax authorities. Interpretations and guidance surrounding income tax laws and regulations change over time. As such, changes in our assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

Available information

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

ITEM 1A.

RISK FACTORS

An investment in our securities involves risks and uncertainties. These risks and uncertainties could cause our actual results to differ materially from our historical results or the results contemplated by any forward-looking statements contained in this Report on Form 10-K or that we make in other filings with the SEC under the Securities and Exchange Act of 1934, as amended, or in other public statements. The risks described below are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. You should consider the following factors carefully, in addition to the other information contained in this Report on Form 10-K, before deciding to purchase, sell or hold our securities.

Risks Associated with Ampal

We may be unable to meet our obligations under our debentures, which may adversely affect our business and financial results and could result in liquidation of the Company.

In light of the adverse economic conditions in which our investee companies operate, in January 2012, we proposed to the holders of our debentures to restructure our debentures to postpone all principal payments due thereunder for the next two years, during which we would continue to make the interest payments as scheduled. We have not made the most recent payments of principal on our Series B Debentures and interest on our Series C Debentures (our Series C Debentures interest payment will be made on March 29, 2012 from funds previously deposited with the Series C Debenture trustee for the benefit of the Series C Holders). While we continue to negotiate with the Holders, we cannot guarantee that we will be able to reach an agreement with the Holders or that the Holders will reach an agreement among themselves regarding a proposed restructuring of the Company. As a result, our Series B Holders have chosen to accelerate and set to immediate payment the entire amounts due under our debentures. If we are unable to reach agreement with the Holders and the acceleration is not rescinded or otherwise stayed, we will not be able to meet our obligations under the Debentures. An inability to reach agreement with our debenture holders, or raise additional capital through new financing, the sale of assets or otherwise, may cause us to take legal actions or other actions that could adversely affect our future operations. The Holders may seek liquidation of the Company under Israeli law or other remedies under other applicable laws.

Our independent auditor’s report expresses doubt about our ability to continue as a going concern.

The report of our independent accounting firm relating to our financial statements as of December 31, 2011 and for the year then ended stated that there was substantial doubt as to our ability to continue as a going concern. Our ability

to continue as a going concern is dependent on our ability to restructure our debt or our ability to obtain additional financing as may be required. There can be no assurance that we will be able to restructure our debt or to obtain additional financing and continue as a going concern.

Presently, the Company does not have sufficient cash and other resources to service its debt and finance its ongoing operations. This fact raises substantial doubts as to the Company's ability to continue as a going concern if the Company does not reach agreement with the debenture holders, obtain additional financing or otherwise raise capital through the sale of assets or otherwise. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Management is in the process of negotiations with the Holders' committees to restructure the debt to its Series A, Series B and Series C Debenture Holders, but there is no assurance that the negotiations will succeed.

These consolidated financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to restructure its debt or its ability to obtain additional financing as may be required.

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

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

Israel has been in armed conflict during the past several years with Hamas, an Islamist movement which controls Gaza, and the Hezbollah movement in Lebanon. These conflicts have involved thousands of missile strikes in southern and northern Israel. Additionally, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons, and the current political situation in Egypt may threaten Egypt's relationship with Israel and contractual obligations on which EMG is dependent; see "Risk Factors – Risks Associated with EMG's Business." In early 2011, riots in Tunisia, Egypt and Libya led to severe political instability in these and other countries in the Middle East. This security situation has had an adverse effect on Israel's economy, primarily in the relevant geographic areas. This situation in Egypt has had a material adverse effect on our business and financial condition. If such situations in the Middle East persist and/or escalate, the adverse economic effect may deepen and spread to additional areas and may continue to materially adversely affect the Company and its subsidiaries' business and financial condition.

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

The Company beneficially owns 100% of Gadot (99.99% on a fully diluted basis) and we consolidate Gadot in the accompanying financial statements. This investment constitutes one of our largest holdings. As a result, changes in the financial condition, business or operations of Gadot (see "Risk Factors – Risks Associated with Gadot's Business") will significantly affect our financial condition and results of operations. Although Gadot has historically paid dividends to its shareholders, changes in Gadot's operations may limit its ability to pay dividends in the future. Further, as a component of Ampal's consolidated financial statements any dividends paid will not be reflected as income by Ampal. While the payment of dividends would not impact Ampal's consolidated earnings, it could limit the financial resources available to operate the Company which could adversely affect our operations and financial condition.

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

The Company beneficially owns approximately 16.8% of EMG (8.6% of which is held by the Joint Venture, of which Ampal owns 50%), a result of a series of transactions with our controlling shareholder, which was accounted for as transactions between entities under common control. This investment constitutes one of our largest holdings. As a result, changes in the financial condition, business or operations of EMG may impact our ability to receive dividends from EMG, which could adversely affect our operations and financial condition (see "Risk Factors – Risks Associated with EMG's Business"). Additionally, we have a minority interest in EMG, and therefore, do not have the ability to

significantly influence or direct the affairs of EMG.

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

Adverse economic conditions in markets in which our investee companies operate can harm our business. Current global financial conditions have been characterized by increased volatility and, primarily during 2008 and 2009, several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. While 2011 has showed signs of recovery in global financial conditions, if economic growth in the United States and other countries stagnate, this may have a negative impact on our liquidity, financial condition and stock price, which may impact the ability of the Company to obtain financing and other sources of funding in the future on terms favorable to the Company, if at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, they may materially adversely affect the Company's results of operations.

The SEC may re-examine, suspend or modify our exemption the from 1940 Act.

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

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

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

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

Changes in taxation requirements could affect our financial results.

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

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

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

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

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

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

A group of shareholders consisting of Yosef A. Maiman, the Chairman of our Board of Directors, President & CEO, Ohad Maiman, Noa Maiman, and Yoav Maiman, and the companies Merhav, De Majorca Holdings Ltd. ("De

Majorca") and Di-Rapallo Holdings Ltd. ("Di-Rapallo"), beneficially owns approximately 61.54% of the voting power of our Class A Stock. The group was formed in recognition of the Maiman family's strong connection with the Company and in furtherance of the group's common goals and objectives as shareholders, including the orderly management and operation of the Company. By virtue of its ownership of Ampal, this group is able to control our affairs and to influence the election of the members of our Board of Directors. This group also has the ability to prevent or cause a change in control of Ampal. Mr. Maiman owns 100% of the economic shares and one-quarter of the voting shares of De Majorca and Di-Rapallo. Merhav is wholly owned by Mr. Maiman.

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

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

We do not publish the value of our assets.

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

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

We have not paid a dividend on our Class A Stock other than in 1995. Past decisions not to pay cash dividends on Class A Stock reflected our policy to apply retained earnings, including funds realized from the disposition of holdings, to finance our business activities and to redeem or repay our outstanding debt, including our \$237.1 million (as of December 31, 2011) unsecured notes on which principal payments commenced in 2011. The payment of cash dividends in the future will depend upon our operating results, cash flow, working capital requirements and other factors we deem pertinent.

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

Stock prices of companies, both domestically and abroad, are subject to fluctuations in trading price. Therefore, as with a company like ours that invests in stocks of other companies, our book value and market price will fluctuate, especially in the short term. As of March 20, 2012, the market price of our Class A Stock on NASDAQ was \$0.20 per share. However our shares have in the past traded below book value. You may experience a decline in the value of your investment and you could lose money if you sell your shares at a price lower than the price you paid for them.

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

Our Class A Stock may not be liquid.

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

The market value of our notes may decrease.

The rating assigned to our notes has been recently downgraded, and any future downgrade, suspension or withdrawal of the rating could cause the liquidity or market value of the notes to decline significantly and we may experience increased difficulty in raising debt financing in the future.

Threats of terrorism or cyber attacks could affect our business.

As described in this Report on Form 10-K, our investee companies and their assets may be targets of terrorist activities which could disrupt their businesses and in turn, affect our investments, as evidenced by the terrorist attacks on EMG's pipeline in 2011. Additionally, we may be subject to cyber attacks, computer viruses or terrorism that may disrupt our operations and could have a material adverse effect on our operations and financial condition. Our investee companies require the continued operation of sophisticated technology systems and network infrastructure. Despite their implementation of security measures, their technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism or other causes.

Risks Associated with Gadot's Business

Global Economic Conditions.

The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions. During 2011, both the prices and demand for chemicals have been volatile. The global manufacturing and economic slowdown negatively influenced demand. A downturn in demand for chemical products may impact the financial condition or performance of Gadot's chemical products business. Overall, the global economy is improving slowly, but is still fragile and vulnerable.

Price Fluctuation.

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

Price Fluctuation of Ship Fuel.

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

Exchange Rates.

Exchange rate fluctuations between the U.S. dollar and the NIS may negatively affect Gadot's earnings. A substantial majority of Gadot's revenues and expenses are denominated in U.S. dollars. However, a significant portion of the expenses associated with Gadot's Israeli operations, including personnel and facilities related expenses, are incurred in NIS. Consequently, inflation in Israel will have the effect of increasing the U.S. dollar cost of Gadot's operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the U.S. dollar. In addition, if the value of the U.S. dollar decreases against the NIS, Gadot's earnings may be negatively impacted. In 2011, the U.S. dollar appreciated against the NIS by 7.7% and inflation increased by 2.2%. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the U.S. dollar or of the U.S. dollar against the NIS. If the U.S. dollar cost of Gadot's operations in Israel decreases and if the current trend of appreciation of the U.S. dollar against the NIS continues, Gadot's dollar-measured results of operations will be positively affected. In addition, exchange rate fluctuations in countries other than Israel where Gadot operates and does business may also positively affect its earnings.

Interest Rate Fluctuations.

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

Ecological Concerns and Licensing Requirements.

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

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

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

Storage Facility License.

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

Risks Associated with EMG's Business

Operating in Egypt carries political and economic risks.

EMG is an Egyptian company. A substantial portion of its assets and operations are located in Egypt and all of its gas purchases are from EGAS, the Egyptian National Gas Company. As a result, EMG's business, financial condition and results of operations have been and still are affected by economic and political developments in or affecting Egypt. In early 2011, riots in Tunisia and Egypt led to severe political instability in these and other countries in the Middle East. Recently, the President of Egypt resigned from his position and the Egyptian administration is currently operated through a transition administration. Results of the national elections in Egypt indicate that the "Muslim Brothers" party and other Islamic parties will become major political players in Egypt, and their attitude towards Israel and Israeli-related businesses might not be positive. There can be no assurance that Egypt will not experience negative effects in its economy, such as increased inflation, changes in government policy or changes in the form or nature of government itself, any of which could adversely affect EMG's business, results of operations and financial condition. The Egyptian government continues to exercise a significant influence over many aspects of the Egyptian economy. In addition, political instability may result from events in the region and from factors such as government intervention in decision making, civil unrest, and activities of religious militants or extremism. Maintenance of domestic order and stability in the face of extremism has been a major policy objective of the Egyptian government. However, there can be no assurance that instability or disruptions of domestic order will not reoccur in the future. In addition, events that might occur outside of Egypt, such as violence, hostilities or armed conflict as part of or in connection with the Israeli-Palestinian conflict, or violence, hostilities or armed conflict between Israel and Iran and other regional Arab countries, could have an adverse impact on EMG. If any of these events occurs, this could cause economic and/or political instability in Egypt, which could adversely affect EMG.

The Egyptian government may take sovereign action adverse to EMG.

Although EMG is not a government-controlled entity, the actions of the Egyptian government may negatively affect its business. The Egyptian government controls the gas supplier to EMG through the Ministry of Petroleum and has the ability to utilize the surplus funds of the gas supplier as it sees fit. The Egyptian government may decide to pursue certain of its macroeconomic and social objectives through the gas supplier which could negatively affect the gas supplier's supply relationship with EMG. The policies of the Egyptian government may not always be in harmony with the financial interests of EMG as a transporter of gas between Egypt and Israel. No assurance can be given that the gas supplier will not engage or be operated in a manner so as to be engaged in activities that give preference to the Egyptian government's agenda rather than to the gas supplier's own economic and business objectives, including its supply relationship with and contractual obligations to EMG.

The operation of EMG's pipeline facilities and the delivery of gas involve many risks—operating risk, availability risk, technology risk and the risk of events beyond EMG's control.

The operation of EMG's pipeline facilities and the delivery of gas to customers involves many risks, including, without limitation, the breakdown or failure of equipment or processes, operator errors, labor disputes, delays in obtaining or renewing or inability to obtain or renew permits, approvals or licenses, violation of permit requirements, shortages of equipment or spare parts, delays in transporting such equipment or spare parts to the pipeline facilities, or catastrophic events such as fires, earthquakes, explosions or terrorist attacks. Since February 5, 2011, EMG and its clients suffered several interruptions in supply due to various explosions in EMG's supplier's pipeline and facilities. The occurrence of any of these events could significantly reduce or entirely prevent the delivery of gas or adversely impact the quality of gas delivered and subject to existing insurance arrangements, could adversely impact EMG's revenues and could lead to termination of one or more of its gas supply contracts. The occurrence of any of these events could significantly reduce EMG's revenues, which, in turn, would have a material adverse effect on its value and on its ability to distribute dividends to us.

Significant fluctuations in gas prices or the availability of cheaper alternative energy sources could adversely affect EMG's business.

Although EMG is not a producer of gas and balances its purchases of gas, the business of EMG could be negatively impacted by significant fluctuations in gas prices or the availability of cheaper alternative energy sources, which could precipitate EMG's gas supply contracts being renegotiated on less favorable terms and price margins than are then in effect.

The volatile political situation in Egypt may adversely affect EMG's business and revenues.

EMG's stand as a natural gas supplier in Israel is based on EMG's long-term contract with the Egyptian government for the purchase of natural gas from Egypt for the resale into the Israeli market through its pipeline system between El-Arish and Ashkelon, and EMG's long-term contracts with several Israeli gas consumers, including Israel's Electric Company. EMG's ability to purchase gas from Egypt was enabled by the peace treaty between Israel and Egypt, and EMG depends on the gas supply from the Egyptian government owned supplier and on the Egyptian government itself. The political situation in Egypt is uncertain at this point, which, among other things, means that it is unclear whether the Egyptian government will honor its treaty obligations, in a manner that affects EMG's business.

Investigations in Egypt could adversely affect EMG.

Following the replacement of the Mubarak administration in Egypt, the current Egyptian government launched several investigations into the actions and operations of its predecessors, including those related to the agreements to export

gas to Israel. Consequently, the former minister of petroleum is under investigation in connection with gas sales to Israel and other countries. There could be other investigations as well. Although the Company has no further knowledge or information with respect to these investigations or their likely outcome and effect on EMG, the government in Egypt could resort to these investigations to justify continuing to withhold – temporarily or otherwise - further EMG sales, or otherwise demand to amend EMG's gas purchase agreement and its terms and conditions.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

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ITEM 2.

PROPERTIES

Finance

We lease our executive offices at 555 Madison Avenue in New York City. The lease is for a period of three years which commenced on January 1, 2010. The annual rent of this lease is \$145,377.

We also lease offices located at 10 Abba Eben Street, Herzliya, Israel. The lease is for a period of 10 years which commenced on January 24, 2007. The annual rent for this lease is \$436,391. We sublease part of these offices for an annual sublease rent of \$324,149.

Chemicals

Gadot leases its headquarters located at 10 Abba Eben Street, Herzliya, Israel. The lease will expire in January 2013. The annual rent for this lease is \$ 0.9 million.

Gadot leases a 17,000 square meter storage tank facility located in the northern bank of the Kishon port in Haifa from the port authority. The annual rent for this lease is \$1.4 million. The lease expires in 2022. Gadot also leases an additional 56,000 square meter storage tank facility from the port authority located in the southern terminal of the Kishon port in Haifa in connection with its storage and loading services. The annual rent for this lease is \$1.6 million. See “Item 1 – Business – Chemicals – Gadot Chemical Tankers and Terminals Ltd. – Storage, Loading and Off-Loading of Materials.” This lease expires in 2014.

Gadot also owns an additional area of 20,000 square meters adjacent to the northern terminal, serving as its Israeli logistics facility and analytical and quality assurance laboratory. Gadot also leases a 1,100 square meter building in Ohr Akiva, Israel, with an annual rent of \$75,750, a 7,500 square meter area in the Ashdod, Israel industrial zone, with an annual rent of \$115,992, and a 6,300 square meter area in Kiryat Atta, Israel, with an annual rent of \$56,023.

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

As of December 31, 2011, Gadot owned two vessels with an aggregate loading capability of 26,500 tons. Gadot leases seven vessels, with an aggregate loading capability of approximately 84,712 tons. The lease period for two of the vessels shall expire around mid-2012, and the lease period for another three of the vessels shall expire at the end of 2013. The lease period for another two vessels shall expire at the beginning of 2015 with an option to purchase. The aggregate lease fees for the seven leased vessels in 2011 amounted to \$25.0 million. In 2012, the lease payments are expected to amount to approximately \$23.7 million.

Gadot has contracted a shipyard for the construction of four additional vessels built with a loading capability of 17,500 tons each, in exchange for consideration of approximately \$27 million per vessel. These vessels were to be delivered during 2011 and 2013. Gadot has cancelled these contracts, but in connection with such contracts, is asserting a refund of certain deposits, which refunds are being disputed by the builder. (Please see “Item 1. Business - Gadot” and “Item 3. Legal Proceedings.”)

Leisure-Time

Kfar Saba occupies an approximately 30,000 square meter lot in the town of Kfar Saba, Israel, which is leased for five consecutive ten-year periods, at the end of which the land returns to the lessor. The lease expires on July 14, 2038, and lease payments in 2011 totaled \$250,311.

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

ITEM 3.

LEGAL PROCEEDINGS

1. Gadot has received third party notices in a number of lawsuits regarding pollution of the Kishon River in Israel. These lawsuits have been filed by various claimants who claim harm by the polluted water of the river, including soldiers from various units in the Israeli Defense Forces who trained in the river, fishermen who fished in the river, the Haifa rowing club and industrial companies that use the river. Some of the lawsuits are claims for monetary damages and some are for injunctions against further pollution of the river. The monetary claims are mostly unlimited in amount and one of them is for approximately \$6 million. Therefore, the Company cannot currently estimate the range of possible loss. Gadot denies liability in all of these claims and has filed statements of defense for each claim. Part of Gadot’s storage tank facility is leased from the Haifa port authority. In 2001 the port authority requested that Gadot participate in an offer to find a consultant to examine ground contamination in the area surrounding the facility. Gadot responded, denying the existence of ground contamination and, in any case, that it is the source of such contamination. Gadot believes that if there is contamination, its source is the contaminated waters of the Kishon River or the Mediterranean Sea.

2. Gadot had contracted a shipyard for the construction of four additional vessels built with a loading capability of 16,600 tons each, in exchange for consideration of approximately \$27 million per vessel. Construction on the first vessel commenced at the end of December 2010 but the vessel has not been delivered yet. Due to the fact that the delivery of all vessels was not completed on the contractual delivery dates and such construction was delayed beyond the permitted grace period, Gadot has cancelled all shipbuilding contracts (in accordance with the terms of the contract) and has demanded the refund of all amounts paid to the builder on account of the purchase price of the vessels plus interest at the agreed annual rate of 6% pursuant to the terms of the contracts. These amounts are secured by refund guarantees issued by the Bank of China Ltd. The builder has disputed the cancellation of the contracts and has referred the matter to LMAA arbitration in London (in accordance with the terms of the contracts). In such cases the obligation of the Bank of China to make payments under its guarantees is suspended pending the arbitration award or judgment on appeal. Both parties have filed LMAA Questionnaires and Gadot has filed Requests for Further Information which still remain unanswered. The next step is to set dates for hearings. Following an application by Gadot to set hearing dates, the arbitration tribunal has decided that the hearing dates will be November 5-17, 2012.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

LISTING OF OUR CLASS A STOCK

On August 11, 2011, the Company received a letter from the NASDAQ Listing Qualifications Staff at the NASDAQ Stock Market informing the Company that it no longer met the minimum bid price per share requirement of the NASDAQ Global Market because the Company's common stock had closed below the minimum \$1.00 per share requirement for 30 consecutive business days. The Company submitted its application to transfer the listing of its shares to the NASDAQ Capital Market on February 9, 2012 in response to this letter. Upon the transfer to the NASDAQ Capital Market, the Company became eligible for an additional 180-calendar day period, or until August 6, 2012, to regain compliance with the bid price requirement. NASDAQ's approval to transfer to the NASDAQ Capital Market was conditioned upon the Company agreeing to effect a reverse stock split during the additional 180-calendar day period.

PRICE RANGE OF CLASS A STOCK

Ampal's Class A Stock is currently listed on the NASDAQ Capital Market under the symbol "AMPL." The following table sets forth the high and low bid prices (in \$U.S. dollars) for the Class A Stock, by quarterly period for the fiscal years 2010 and 2011, as reported by the NASDAQ Global Market and representing inter-dealer quotations which do not include retail markups, markdowns or commissions for each period, and each calendar quarter during the periods indicated. Such prices do not necessarily represent actual transactions.

| | High | Low |
|----------------|------|------|
| 2010: | | |
| Fourth Quarter | 2.65 | 1.63 |
| Third Quarter | 2.19 | 1.42 |
| Second Quarter | 2.80 | 1.39 |

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| | | |
|----------------|------|------|
| First Quarter | 3.06 | 2.56 |
| 2011: | | |
| Fourth Quarter | 0.68 | 0.26 |
| Third Quarter | 0.97 | 0.30 |
| Second Quarter | 1.99 | 0.87 |
| First Quarter | 2.70 | 1.73 |

As of March 20, 2012, there were approximately 1,221 record holders of Class A Stock.

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

VOTING RIGHTS

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

DIVIDEND POLICY

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

For equity compensation plan information required by Item 201(d) of Regulation S-K, please see "Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" below.

ITEM 6.

SELECTED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended December 31, 2009, 2010 and 2011 and consolidated balance sheet data as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements included in this Report. The selected consolidated statement of operations data for the year ended December 31, 2007 and the selected consolidated balance sheet data as of December 31, 2007 and 2008 have been derived from our unaudited consolidated financial statements not included herein.

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

| | Fiscal year ended December 31, | | | | |
|--|--|-------------|-----------|-------------|-----------|
| | 2011 | 2010 | 2009(1) | 2008(1) | 2007 |
| | (U.S. dollars in thousands, except per share data) | | | | |
| Revenues | \$575,339 | \$504,962 | \$425,756 | \$562,495 | \$37,797 |
| Net loss from continuing operations attributable to Ampal's shareholders | (129,387) | (64,645) | (19,481) | (15,866) | (13,578) |
| Income from discontinued operations, net of tax | 34,066 | 19,903 | -- | -- | 21,344 |
| Net income (loss) attributable to Ampal's shareholders | \$(95,321) | \$(44,742) | (19,481) | \$(15,866) | \$7,766 |
| Basic and diluted EPS(1) : | | | | | |
| Loss from continuing operations | \$(2.30) | \$(1.15) | \$(0.35) | \$(0.27) | \$(0.26) |
| Income from discontinued operations, net of tax | \$0.61 | \$0.35 | \$-- | \$-- | \$0.42 |
| | (1.69) | (0.80) | (0.35) | (0.27) | 0.16 |

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| | | | | | |
|-------------------------------------|-----------|-------------|-----------|-----------|-----------|
| Total assets | \$846,609 | \$1,397,675 | \$960,041 | \$997,438 | \$401,683 |
| Notes, loans and debentures payable | \$674,380 | \$796,978 | \$728,734 | \$596,456 | \$104,163 |

(1) Retroactively adjusted to reflect acquisition under common control.

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

OVERVIEW

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

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

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

The results of investee companies in which we own a greater than 50% interest are included in the consolidated financial statements. We account for our holdings in investee companies over which we exercise significant influence, generally 20% to 50% owned companies ("affiliates"), under the equity method. Under the equity method, we recognize our proportionate share of such companies' income or loss based on its percentage of direct and indirect equity interests in earnings or losses of those companies. The results of operations are affected by capital transactions of the affiliates. Thus, the issuance of shares by an affiliate at a price per share above our carrying value per share for such affiliate results in our recognizing income for the period in which such issuance is made, while the issuance of shares by such affiliate at a price per share that is below our carrying value per share for such affiliate results in our recognizing a loss for the period in which such issuance is made. We account for our holdings in investee companies, other than those described above, on the cost method. We review investments accounted for under the cost method and those accounted for under the equity method periodically in order to determine whether to maintain the current carrying value or to write down some or all of the investment. For more information as to how we make these determinations, see "Critical Accounting Policies."

For those subsidiaries and affiliates whose functional currency is considered to be a currency other than the U.S. dollar, assets and liabilities are translated at the rate of exchange at the end of the reporting period and revenues and expenses are translated at the average rates of exchange during the reporting period. Translation differences of those foreign companies' financial statements are included in the cumulative translation adjustment account (reflected in accumulated other comprehensive loss) of shareholders' equity. Should the exchange rate of those other currencies change against the U.S. dollar, cumulative translation adjustments are likely to be effected in the shareholders' equity. As of December 31, 2011, the accumulated effect on shareholders' equity was a decrease of approximately \$11.9 million. Upon the disposition of an investment, the related cumulative translation adjustment balance will be recognized in determining gains or losses.

CRITICAL ACCOUNTING POLICIES

The preparation of Ampal's consolidated financial statements is in conformity with generally accepted accounting principles in the United States ("U.S. GAAP"), which requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Ampal's business activities, described below are certain Ampal accounting policies that play a major role in the portrayal of its financial condition and results of operations and that require management's subjective judgments. Ampal bases its judgments on its experience and various other assumptions that it believes to be reasonable under the circumstances. Please refer to Note 1 to Ampal's consolidated financial statements included in this Report on Form 10-K for the fiscal year ended December 31, 2011 for a summary of all of Ampal's significant accounting policies.

Going Concern

Presently, the Company does not have sufficient cash and other resources to service its debt and finance its ongoing operations. This fact raises substantial doubts as to the Company's ability to continue as a going concern if the Company does not reach agreement with the debenture holders, obtain additional financing or otherwise raise capital through the sale of assets or otherwise. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Management is in the process of negotiations with the debenture holders' committees to restructure the debt to its Series A, Series B and Series C debenture holders (collectively, the "Holders"), but there is no assurance that the negotiations will succeed.

Business Combinations

On January 1, 2009, the Company adopted authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but significantly changes the accounting for certain aspects of business combinations. Under this guidance, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. The guidance changes the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred, with the exception that the costs to issue debt or equity securities are recognized in accordance with other applicable GAAP; (2) valuing noncontrolling interests at fair value at the acquisition date; (3) expensing restructuring costs associated with an acquired business; (4) capitalization of in-process research and development at fair value; and (5) recognizing the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

The Company accounts for each business combination by applying the acquisition method, which requires (i) identifying the acquirer; (ii) determining the acquisition date; (iii) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest of the acquirer in the acquiree at their acquisition date fair value; and (iv) recognizing and measuring goodwill or a gain from a bargain purchase. Goodwill is measured and recorded as the amount by which the consideration transferred, generally at the acquisition date fair value, exceeds the acquisition date fair value of identifiable assets acquired, the liabilities assumed, and any noncontrolling interest of the acquirer in the acquiree. To the contrary, if the acquisition date fair value of identifiable assets acquired, the liabilities assumed, and any noncontrolling interest of the acquirer in the acquiree exceeds the consideration transferred, it is considered a bargain purchase and the company would recognize the resulting gain in earnings on the acquisition date.

Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If acquisition date fair value cannot be determined during the measurement period, the Company accounts for the acquired contingencies using existing guidance for a reasonable estimate.

Goodwill and Other Intangible Assets

Goodwill is not amortized but is subject to impairment tests annually on December 31 or more often when events or circumstances indicate that the carrying amount of goodwill may not be recoverable. A goodwill impairment loss is recognized to the extent the carrying amount of goodwill exceeds the implied fair value of goodwill. The Company assesses intangible assets subject to amortization, when events or circumstances indicate that the carrying amount of those assets may not be recoverable.

We regularly assess whether goodwill has been impaired and will adjust its carrying value whenever significant events or changes in circumstances indicate that some or all of the carrying value of the goodwill may not be recoverable. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operating performances of our businesses and products. Future events could cause us to conclude that impairment indicators exist and that the carrying value of our goodwill is impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. No impairment losses relating to goodwill have been recorded to date. Changes in certain economic factors that impact the assumptions in our valuation models changes, such as market valuation multiples, borrowing costs and equity risk factors, could cause an impairment of the goodwill in the future. If management determines that impairment exists, the impairment will be recognized in the period in which it is identified.

We evaluate the recoverability and measure the possible impairment of goodwill based on fair value calculations. The impairment test is a two-step process that begins with the estimation of the fair value of the reporting unit. We estimate the fair value of our goodwill in Gadot by discounting the expected cash flows. Our goodwill is allocated to the chemical operating unit. The first step screens for potential impairment, and the second step measures the amount of the impairment, if any. As part of the first step to assess potential impairment, we compare our estimate of fair value for this operating unit to its book value. If the book value of the operating unit is greater than the estimate of its fair value, we would then proceed to the second step to measure the impairment, if any. The second step measures the amount of impairment by comparing the implied fair value of goodwill with its carrying value. As of December 31, 2011, the first step process resulted in no potential impairment; accordingly, we did not need to perform the second step measures.

We have selected December 31 as the date on which to perform our annual impairment test for goodwill.

Investment in East Mediterranean Gas Company, S.A.E. ("EMG") and other cost basis investments

The Company accounts for its 16.8% equity interest (includes 8.6% held by the Joint Venture) in EMG and a number of other investments on the basis of the cost method. EMG, which is one of the Company's most significant holdings as of December 31, 2011, was acquired by Ampal and by a joint venture in which Ampal is a party in a series of transactions from Merhav (M.N.F.) Ltd. ("Merhav"), which is an entity controlled by one of the members of the Company's controlling shareholder group. As a result, the transactions were accounted for as transfers of assets between entities under common control, which resulted in Merhav transferring the investment in EMG at carrying value. Due to the nature of Merhav's operations, this entity would be treated as an investment company under U.S. GAAP, and as such, the carrying value of the investment in EMG would equal fair value. As a result, the 16.8% investment in EMG was transferred at carrying value, which equals fair value. Application of the cost basis method requires the Company to periodically review these investments in order to determine whether to maintain the current carrying value or to write down some or all of the investment. We estimate the fair value of our investments, principally in EMG, by discounting the expected cash flows of the underlying entity to determine the fair value of the entity and our share of that value based on our ownership interest. While the Company uses some objective measurements in its review, such as the portfolio company's liquidity, achievement of milestones set forth in its business plan or projections and seeks to obtain relevant information from the company under review, the review process involves a number of judgments on the part of the Company's management. These judgments include assessments of the likelihood of the company under review to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments the Company must also attempt to anticipate trends in the particular company's industry, in the general economy, prices assumptions for uncontracted gas based on future demand for gas in Israel and supply alternatives. The Company must also anticipate the political and security situation in Egypt after the resignation of the President of Egypt and the results of the election of the Egyptian Parliament and their effects on EMG's business. The projections are based on the assumption that EMG will gradually increase its gas supply up to the contracted 7 BCM per annum and that its gross profit during the coming years will improve correspondingly. The Company considered a possible tax liability for EMG in Egypt and as a result possible tax credits may be available to the Company in the United States. There can be no guarantee that the Company will be accurate in its assessments and judgments. To the extent that the Company is not correct in its conclusion it may decide to write down all or part of the particular investment. The principal factors affecting valuation are the prices, quantity, delivery dates and reliability of the gas, as well as the discount rate. In determining the carrying value as of December 31, 2011 and in light of the current events in Egypt, the Company addressed the risk in a combined approach through the discount rate and reduced cash flow scenarios. The Company considered possible scenarios, including reductions from the contracted amounts in the quantity of gas to be delivered, reductions in the gross margins under EMG's gas purchase and sale agreements, future interruptions in gas supply due to possible future attacks on the Egyptian gas infrastructure in Sinai and applied an average discount rate of 11.5% (based on the rate of 8% for the international CAPM and the impact of a project execution risk premium in the rate of 3.5%). The impact of 0.5% in the average discount rate will result in a change of \$75 million in EMG's valuation. In the Company's management's judgment these assumptions and the adjustments based on these assumptions are reasonable. Any change in the assumptions or adverse change in any of these factors could result in a reduction of EMG's expected cash flow, in additional material reduction in the value of EMG and additional reduction in the carrying value amount of the asset on the Company's balance sheet. The Company will continue to evaluate developments with regard to EMG and will make determinations each fiscal period as to whether an impairment charge is appropriate.

Marketable Securities

We determine the appropriate classification of marketable securities at the time of purchase. We hold marketable securities classified as trading securities that are carried at fair value. We classify investment in marketable securities as investment in trading securities, if those securities are bought and held principally for the purpose of selling them in

the near term (held for only a short period of time). All the other securities are classified as available for sale securities.

Accounting Standard Codification ("ASC") 320-10 provides guidance on determining when an investment is other-than-temporarily impaired. Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of the investee; and our intent and ability to hold the investment. Investments with an indicator are further evaluated to determine the likelihood of a significant adverse effect on the fair value and amount of the impairment as necessary. If market, industry and/or investee conditions deteriorate, we may incur future impairments.

Long-Lived Assets

On January 1, 2002, Ampal adopted ASC 360-10, which requires that long-lived assets, to be held and used by an entity, be reviewed for impairment and, if necessary, written down to the estimated fair values, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. During the fiscal year ended December 31, 2011, the Company wrote off \$4.8 million from the Long-Lived Assets in the chemical segment.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax expense on book income as adjusted for permanent and temporary differences resulting from differing treatment of items for tax and financial accounting purposes. The temporary differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not "more-likely-than-not," we must establish a valuation allowance. To the extent we establish (or release) a valuation allowance or increase (or decrease) this allowance in a financial accounting period, we must include an income tax expense (or benefit) within the tax provision in the statement of operations. A partial valuation allowance is currently set against certain tax assets because management believes it is more likely than not that some of these deferred tax assets will not be realized through the generation of future taxable income. We have not provided a full valuation allowance against our deferred tax assets due to a strategy that provides us the opportunity to sell certain appreciated investments and which is projected to provide adequate U.S. taxable income against which we expect to be able to offset with our net operating loss carryover. We have the intent and ability to sell such appreciated investments prior to the expiration of the net operating loss and thus we expect to realize the related deferred tax assets.

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

We also account for uncertain tax positions in accordance with ASC 740-10 (formerly FIN 48). The application of income tax law is inherently complex. As such, we are required to make many assumptions and judgments regarding our income tax positions and the likelihood of such tax positions being upheld if challenged by applicable tax authorities. Interpretations and guidance surrounding income tax laws and regulations change over time. As such, changes in our assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

Employee Stock-Based Compensation

We adopted ASC 718, which requires awards classified as equity awards to be accounted for using the grant-date fair value method. The fair value of stock options is determined based on the number of shares granted and the price of our common stock, and determined based on the Black-Scholes models, net of estimated forfeitures. We estimated forfeitures based on historical experience and anticipated future conditions.

In March 2005, the SEC issued guidance on valuation methods, inventory capitalization of share-based compensation cost, income statement effects, disclosures and other issues. ASC 718-10 requires share-based payment to be classified in the same expense line items as cash compensation. We have applied the provisions of ASC 718-10 in our implementation of ASC 718.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update (“ASU”) 2011-12 – update to ASU 2011-05

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2011-12 (“ASU 2011-12”) which amended the comprehensive income presentation guidance. The adjustments in this Update supersede changes to those paragraphs in Update No. 2011-05 (“ASU 2011-05”) that pertain to how, when and where reclassification adjustments are presented. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. The amendments are effective for public entities for annual and interim reporting periods beginning after December 15, 2011. The Company will adopt this amendment on January 1, 2012. The adoption will change the way the Company presents comprehensive income as under current guidance, the Company presents comprehensive income within the statement of changes in equity in annual periods, and within the footnotes to the financial statements in interim periods.

ASU 2011-11

In December 2011, the FASB issued ASU No. 2011-11 (“ASU 2011-11”) which amended the disclosure information requirements regarding offsetting (netting) assets and liabilities. The amendment enhances disclosures regarding financial instruments and derivative instruments that are either (1) offset in accordance with GAAP or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments in ASU 2011-11 are effective for annual and interim reporting periods beginning after January 1, 2013. According to ASU 2011-11 the entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect ASU 2011-11, which relates to disclosure

matters only, to have an impact on the Company's consolidated financial position, results of operations or cash flows.

ASU 2011-08

In September 2011, the FASB issued ASU No. 2011-08 ("ASU 2011-08") which amended the guidance for goodwill impairment testing. The amendment provides entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, further testing of goodwill for impairment would not be required. The amendment also removes the carry forward option of the reporting unit fair value from one year to the next. The amendment is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted.

ASU 2011-05

In June 2011, the FASB issued ASU No. 2011-05 ("ASU 2011-05") which amended the comprehensive income presentation guidance. The amendment requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The guidance is effective for interim and annual periods beginning after December 15, 2011.

ASU 2011-04

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") for Fair Value Measurements and Disclosures (Topic 820). The amendment clarifies the existing guidance and adds new disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the potential impact of ASU 2011-04 on its financial statements.

RESULTS OF OPERATIONS

Fiscal year ended December 31, 2011 compared to fiscal year ended December 31, 2010:

General

The Company recorded a consolidated net loss of \$95.3 million for the fiscal year ended December 31, 2011, as compared to a net loss of \$44.7 million for the same period in 2010. The increase in losses in 2011 is primarily attributable to the impairment of the investment in EMG and increase in income tax expenses (resulting from decrease in deferred income taxes) in the amount of \$100.9 million and \$14.1 million, respectively, offset by a \$28.9 million capital gain that was recorded from the sale of 012 Smile Telecom Ltd. ("012 Smile") and translation gain in the amount of \$21.7 million.

In the fiscal year ended December 31, 2011, the Company recorded \$540.4 million of Chemical income, as compared to \$496.6 million of Chemical income in the corresponding period in 2010. The increase in revenue is mainly attributed to price increase and volume growth, as well as the contribution to revenues from a new business which was acquired toward the end of 2010.

In the fiscal year ended December 31, 2011, the Company recorded \$59.0 million of general and administrative expense, as compared to \$59.6 million of general and administrative expense in the corresponding period in 2010.

In the fiscal year ended December 31, 2011, the Company recorded \$21.7 million of net loss attributable to noncontrolling interests, as compared to \$6.6 million in the corresponding period in 2010. The loss in 2011 is mainly attributable to the impairment of the investment in EMG, offset by translation gain in the notes issued to the partners in Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (the "Joint Venture"), resulting from the devaluation of the New Israeli Shekel ("NIS") compared to the U.S. dollar.

In the fiscal year ended December 31, 2011, the Company recorded \$43.6 million in interest expense, as compared to \$44.2 million in interest expense for the corresponding period in 2010.

In the fiscal year ended December 31, 2011, the Company recorded a \$21.7 million currency exchange gain, as compared to a \$20.2 million currency exchange loss for the corresponding period in 2010. The translation gain in 2011 is related to a change in the valuation of the NIS as compared to the U.S. dollar, which decreased 7.7% in 2011, as compared to an increase of 6.0% for the corresponding period in 2010.

Result of Operations Analyzed by Segments

| | 2011 | 2010 |
|--------------|-----------------------------|------------|
| | (U.S. dollars in thousands) | |
| Revenues: | | |
| Chemicals | \$ 540,426 | \$ 496,551 |
| Finance | 31,978 | 5,431 |
| Leisure-Time | 2,935 | 2,980 |
| | 575,339 | 504,962 |

In the fiscal year ended December 31, 2011, the Company recorded \$575.3 million in revenue, which was comprised of \$540.4 million in the Chemicals segment, \$32.0 million in the Finance segment and \$2.9 million in the Leisure-Time segment, as compared to \$505.0 million in revenue for the same period in 2010, which was comprised of \$496.6 million in the Chemicals segment, \$5.4 million in the Finance segment and \$3.0 million in the Leisure-Time segment.

The Chemicals income relates solely to Gadot and was derived from the following activities: sales of a wide range of liquid and solid chemicals, providing maritime shipping services of chemicals by ships and providing other services which include logistics and storage services for chemicals.

The increases in chemical commodity sale prices (revenues) and some volume growth positively contributed to gross margin as a result of utilizing inventory quantities and price.

The increases in the Finance segment revenue is primarily related to the translation gain.

| | 2011 | 2010 |
|--------------|-----------------------------|------------|
| | (U.S. dollars in thousands) | |
| Expenses: | | |
| Chemicals | \$ 551,111 | \$ 507,174 |
| Finance | 55,881 | 73,366 |
| Energy | 100,923 | -- |
| Leisure-Time | 2,769 | 2,745 |
| | \$ 710,684 | \$ 583,285 |

In the fiscal year ended December 31, 2011, the Company recorded \$710.7 million in expenses, which was comprised of \$551.1 million in the Chemicals segment, \$55.9 million in the Finance segment, \$100.9 million in the Energy segment and \$2.8 million in the Leisure-Time segment, as compared to \$583.3 million in expenses for the same period in 2010, which was comprised of \$507.2 million in the Chemicals segment, \$73.4 million in the Finance segment and \$2.7 million in the Leisure-Time segment. The increase in the expenses of the Energy segment is primarily attributable to the impairment of the investment in EMG in the amount of \$100.9 million.

All expenses in the Chemicals segment are attributed to Gadot. Gadot's expenses in the year ended December 31, 2011 increased by 8.5% as compared to the expenses in the year ended December 31, 2010. This increase is mainly attributed to an impairment of property, plant and equipment in the amount of \$4.5 million, acquisition of new subsidiaries and to the increase in chemical commodity pricing being a derivative of the crude oil pricing. During 2011 the price of crude oil increased, which led to a moderate increase in chemical commodity prices.

Fiscal year ended December 31, 2010 compared to fiscal year ended December 31, 2009:

General

The Company recorded a consolidated net loss of \$44.7 million for the fiscal year ended December 31, 2010, as compared to a net loss of \$19.5 million for the same period in 2009. The increase in losses in 2010 is primarily attributable to the interest expenses resulting from the loans obtained for the financing of the purchase of 012 Smile's, ADPO's and Agro's business, depreciation of the intangible assets and the translation loss.

In the fiscal year ended December 31, 2010, the Company recorded \$496.6 million of Chemical income, as compared to \$414.5 million of Chemical income in the corresponding period in 2009. The increase in Chemicals revenues is primarily attributable to the recovery in the markets, especially in Europe, which led to an increase in quantities sold

and product prices. The demand for chemical carriers shows moderate growth during the fiscal year ended December 31, 2010. Average freight prices are slightly higher, mainly as a result of a rise in prices for the Mediterranean to U.S. voyages.

In the fiscal year ended December 31, 2010, the Company recorded \$59.6 million of general and administrative expense, as compared to \$45.0 million of general and administrative expense in the corresponding period in 2009. The increase in these expenses is attributable to the new companies acquired during 2010, the examination of new investments and issuance of series C debentures.

In the fiscal year ended December 31, 2010, the Company recorded \$6.6 million of minority interests in gain of subsidiaries, net, as compared to \$0.4 million in the corresponding period in 2009. These gains are mainly attributable to translation loss in the notes issued to the partners in Merhav Ampal Energy, LP, an Israeli limited partnership (the "Joint Venture"), resulting from the revaluation of the NIS compared to the U.S. dollar.

In the fiscal year ended December 31, 2010, the Company recorded \$44.2 million in interest expense, as compared to \$33.2 million in interest expense for the corresponding period in 2009. The increase in interest expense relates to the financing of the new Gadot's acquisitions and issuance of the Serious C debentures.

In the fiscal year ended December 31, 2010, the Company recorded a \$20.2 million currency exchange loss, as compared to a \$5.4 million currency exchange gain for the corresponding period in 2009. The increase in translation loss is related to a change in the valuation of the NIS as compared to the U.S. dollar, which decreased 6.0% in 2010, as compared to a decrease of 0.7% in 2009. Our NIS denominated debt results in a translation loss when the NIS strengthens against our reporting currency, the U.S. dollar.

In the fiscal year ended December 31, 2010, the Company recorded \$0.9 million of net realized gain on investments, compared to \$0.9 million of net realized gain in the same period in 2009. The net gain recorded in 2010 was primarily attributable to the sale of Hod Hasharon Limited Partnership (\$0.5 million gain) and the sale of certain assets by FIMI Opportunity Fund L.P (\$0.4 million gain).

Result of Operations Analyzed by Segments

| | 2010 | 2009 |
|----------------------------------|-----------------------------|-------------------|
| | (U.S. dollars in thousands) | |
| Revenues: | | |
| Chemicals | \$ 496,551 | \$ 414,468 |
| Finance | 5,431 | 8,588 |
| Leisure-Time | 2,980 | 2,700 |
| | 504,962 | 425,756 |
| Equity in earnings of affiliates | (932) | (1,214) |
| Total | \$ 504,030 | \$ 424,542 |

In the fiscal year ended December 31, 2010, the Company recorded \$504.0 million in revenue, which was comprised of \$496.6 million in the Chemicals segment, \$5.4 million in the Finance segment, \$3.0 million in the Leisure-Time segment and a \$0.9 million loss in equity, as compared to \$424.5 million in revenue for the same period in 2009, which was comprised of \$414.5 million in the Chemicals segment, \$8.6 million in the Finance segment, \$2.7 million in the Leisure-Time segment and a \$1.2 million loss in equity. The decrease in the Finance segment revenue is primarily related to the debentures repurchase in 2009.

All revenues in the Chemicals segment are attributed to Gadot. Gadot's revenues in the year ended December 31, 2010 increased by 19.8% as compared to the revenues in the year ended December 31, 2009. The increase in Chemicals revenues is primarily attributable to the recovery in the markets, especially in Europe, which led to an increase in quantities sold and product prices. The demand for chemical carriers shows moderate growth during the fiscal year ended December 31, 2010. Average freight prices are slightly higher, mainly as a result of a rise in prices for the Mediterranean to U.S. voyages.

| | 2010 | 2009 |
|----------------------------------|-----------------------------|----------------|
| | (U.S. dollars in thousands) | |
| Expenses: | | |
| Chemicals | \$ 507,174 | \$ 415,749 |
| Finance | 73,366 | 37,778 |
| Leisure-Time | 2,745 | 2,538 |
| | \$ 583,285 | \$ 456,065 |
| Equity in earnings of affiliates | (932) | (1,214) |
| Total | 582,353 | 454,851 |

In the fiscal year ended December 31, 2010, the Company recorded \$583.3 million in expenses, which was comprised of \$507.2 million in the Chemicals segment, \$73.4 million in the Finance segment and \$2.7 million in the Leisure-Time segment, as compared to \$456.1 million in expenses for the same period in 2009, which was comprised of \$415.7 million in the Chemicals segment, \$37.8 million in the Finance segment and \$2.5 million in the Leisure-Time segment. The increase in the expenses at the finance segment is primarily attributable to the increase in interest expenses and translation expenses.

All expenses in the Chemicals segment are attributed to Gadot. Gadot's expenses in the year ended December 31, 2010 increased by 22.0% as compared to the expenses in the year ended December 31, 2009. This increase is mainly attributed to the acquisition of new subsidiaries and to the increase in chemical commodity pricing being a derivative of the crude oil pricing. During 2010 the price of crude oil increased, which led to a moderate increase in chemical commodity prices.

SELECTED QUARTERLY FINANCIAL DATA

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|--|-------------------|------------------|-------------------|
| | (U.S. dollars in thousands, except per share data) | | | |
| | Unaudited | | | |
| Fiscal Year Ended December 31, 2011 | | | | |
| Revenues | \$ 136,553 | \$ 142,687 | \$ 165,411 | \$ 130,688 |
| Net interest expense | 9,279 | 12,044 | 8,863 | 9,869 |
| Net loss from continuing operations attributable to Ampal's shareholders | (16,820) | (39,343) | (20,234) | (52,990) |
| Net income from discontinued operations | 34,066 | -- | -- | -- |
| Basic and diluted EPS: | | | | |
| Loss from continuing operations per share of Class A Stock | (0.30) | (0.70) | (0.36) | (0.94) |
| Earnings from discontinued operations per share of Class A Stock | 0.61 | -- | -- | -- |
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (U.S. dollars in thousands, except per share data) | | | |
| | Unaudited | | | |
| Fiscal Year Ended December 31, 2010 | | | | |
| Revenues | \$ 119,884 | \$ 120,228 | \$ 125,609 | \$ 138,309 |
| Net interest expense | 5,965 | 11,231 | 12,774 | 13,338 |
| Net loss from continuing operations attributable to Ampal's shareholders | (9,289) | (5,147) | (24,901) | (25,308) |
| Net income from discontinued operations | 2,159 | 630 | 774 | 16,340 |
| Basic and diluted EPS: | | | | |
| Loss from continuing operations per share of Class A Stock | (0.17) | (0.09) | (0.44) | (0.45) |
| Earnings from discontinued operations per share of Class A Stock | 0.04 | 0.01 | 0.01 | 0.29 |

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

On December 31, 2011, cash, cash equivalents and marketable securities were \$54.5 million, as compared with \$34.2 million in 2010. The increase is mainly attributable to the sale of 012 Smile's shares.

As of December 31, 2011, the Company had \$0.2 million of marketable securities as compared to \$0.9 million in 2010.

Presently, the Company does not have sufficient cash and other resources to service its debt and finance its ongoing operations. This fact raises substantial doubts as to the Company's ability to continue as a going concern if the Company does not reach agreement with the debenture holders, obtain additional financing or otherwise raise capital through the sale of assets or otherwise. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Management is in the process of negotiations with the Holders' committees to restructure the debt to its Series A, Series B and Series C Debenture Holders, but there is no assurance that the

negotiations will succeed.

Cash flows from operating activities

Net cash used in operating activities totaled approximately \$50.8 million for the fiscal year ended December 31, 2011, as compared to approximately \$23.2 million used in operating activities in 2010. The increase in cash flows used in operating activities is mainly attributed to the increase in interest expenses and the decrease in working capital during the year ended 2011.

Cash flows from investing activities

Net cash provided by investing activities totaled approximately \$19.0 million for the fiscal year ended December 31, 2011, as compared to approximately \$50.1 million used in investing activities in 2010. The increase in cash used in investing activities is primarily attributable to the acquisitions of ADPO Ghent N.V.'s ("ADPO") and Merhav Agro Ltd.'s business which made in 2010.

Cash flows from financing activities

Net cash used in financing activities was approximately \$100.4 million for the fiscal year ended December 31, 2011, as compared to approximately \$134.5 million of net cash provided by financing activities in 2010. The increase in cash used in financing activities is primarily attributable to issuance of Series C debentures during 2010 and the partial repayment to the Series A debenture holders during 2011.

Investments

On December 31, 2011, the aggregate fair value of trading and available-for-sale securities was approximately \$0.2 million, as compared to \$0.9 million on December 31, 2010.

a) On November 17, 2011, Gadot, through its subsidiary, completed the purchase of 65% of the outstanding share capital of Agrinet Central Europe Ltd ("ACE"), an Israeli company which operates mainly in Eastern Europe in the agriculture field, for a purchase price of \$ 2.67 million. Pursuant to the purchase agreement, Gadot was granted with a call option and the seller was granted with a put option for the remaining shares of ACE. Gadot granted the seller an irrevocable option to purchase one of ACE's real estate properties in exchange consideration of \$70,000 and certain priority in the distribution of dividends by Gadot, as described in the agreement. Part of the purchase price was financed by Gadot's own resources and the remainder by taking a long-term loan to a third party.

b) On March 3, 2011, MAG completed its sale of all of the outstanding shares of 012 Smile, a wholly owned subsidiary of MAG, to Partner Communications Company Ltd. ("Partner"), in accordance with the Share Purchase Agreement between MAG, 012 Smile and Partner, signed on October 13, 2010 (the "012 Sale"). Accordingly, 012 Smile has been reported as discontinued operations since December 31, 2010.

c) In 2010 the Company made the following investments:

1. On July 1, 2010, Gadot entered into an assignment and assumption agreement (the "Assignment Agreement") with its wholly owned subsidiary Gadot Sales and Distribution Ltd. ("Gadot Sales"), whereby Gadot assigned to Gadot Sales all of its rights and obligations under the previously disclosed stock purchase agreement with Mr. Yosef A. Maiman, the Chairman, President and CEO of the Company, to purchase all of the issued share capital (the "Shares") of Merhav Agro Ltd. ("Agro"). Pursuant to the terms of the stock purchase agreement, Mr. Maiman was given notice of the assignment. The acquisition closed on July 1, 2010, and Gadot Sales purchased the Shares from Mr. Maiman for a purchase price of NIS 108 million (approximately \$28.7 million), subject to certain post-closing working capital adjustments and adjustments for changes in Agro's indebtedness between signing and closing. To fund the purchase price, Gadot Sales obtained a short-term credit facility in the aggregate principal amount of NIS 108 million (approximately \$28.7 million) from Israel Discount Bank Ltd. Gadot Sales intends to replace part of the short-term credit facility with long-term financing from Israeli banks.

2. On August 20, 2010, Gadot, through its subsidiary, completed the previously announced purchase of the entire issued and outstanding share capital of ADPO Ghent N.V. ("ADPO") for a purchase price of €30 million (approximately \$38.1 million). Gadot's subsidiary obtained a long-term credit facility from Israel Discount Bank Ltd. for the financing of the purchase price. ADPO owns and operates a chemical storage terminal in Ghent, Belgium over an area of 25 hectares of land, with a storage capacity of approximately 100,000 cubic meters. The Company believes that the acquisition will allow Gadot to expand its global business and maximize its ability to deliver products and services worldwide.

Debt

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

The Company finances its general operations and other financial commitments through bank loans and institutional lenders. As of December 31, 2011, the outstanding indebtedness under these loans totaled \$433.3 million and the loans mature between 2012 and 2019.

Debentures

| | Series A Debentures | | Series B Debentures | | Series C Debentures | |
|---------------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|
| | par value in NIS in thousands | U.S. Dollars in thousands | par value in NIS in thousands | U.S. Dollars in thousands | par value in NIS in thousands | U.S. Dollars in thousands |
| Date of issuance | November 20, 2006 | | April 29, 2008 | | September 13, 2010 | |
| Linkage | Israeli CPI | | Israeli CPI | | Israeli CPI | |
| Interest | 5.75% | | 6.60% | | 6.95% + 1%* | |
| Maturity date | November 2015 | | January 2016 | | September 2019 | |
| Issuance | 250,000 | 57,978 | 577,823 | 166,856 | 170,000 | 45,093 |
| Purchased | 30,733 | 8,730 | 115,431 | 33,165 | 7,084 | 2,193 |
| Paid (net) | 43,853 | 13,743 | -- | -- | -- | -- |
| Balance as of December 31, 2011 | 175,414 | 53,602 | 462,392 | 136,913 | 162,916 | 44,205 |
| Deposits held by trustees | | -- | | 5,067 | | 9,473 |

* See the description.

On September 13, 2010, Ampal completed a public offering in Israel of NIS 170.0 million (approximately \$45.0 million) aggregate principal amount of its Series C debentures, due in 2019. The debentures are linked to the CPI and carry an annual interest rate of 6.95%. The Series C debentures rank pari passu with Ampal's unsecured indebtedness. The debentures will be repaid in six equal annual installments commencing on September 7, 2014, and the interest will be paid semi-annually. As of December 31, 2011, the outstanding debt under the debentures amounts to \$44.2 million. Ampal deposited an amount equal to \$12.5 million with Ziv Haft Trust Company Ltd. in accordance with a trust agreement dated August 31, 2010, to secure the first four years worth of payments of interest on the debentures. As of December 31, 2011, the outstanding amount of the deposit was \$9.5 million. The debt offering was made solely to certain non-U.S. institutional investors in accordance with Regulation S under the U.S. Securities Act of 1933, as amended. The debentures have not been and will not be registered under the U.S. securities laws, or any state securities laws, and may not be offered or sold in the United States or to United States persons without registration unless an exemption from such registration is available.

On March 3, 2011, Midroog Ltd. (an affiliate of Moody's Investors Service) ("Midroog") had downgraded Ampal's Series A, Series B and Series C Debentures' (the "Debentures") ratings by one notch, to BAA1 from A3 with a negative outlook. The Debentures remain on Midroog's "Watchlist".

On May 26, 2011, Midroog downgraded the Debentures' ratings by two notches, to BAA3 from BAA1 with a negative outlook. The Debentures were removed from Midroog's "Watchlist".

On August 10, 2011, Midroog downgraded the Debentures' ratings by three notches, to BA3 from BAA3 with a negative outlook.

On December 22, 2011, Midroog downgraded the Debentures' ratings by three notches, to B3 from BA3 with a negative outlook.

On March 15, 2012, Midroog downgraded the Debentures' ratings by three notches, to Caa3 from B3 with a negative outlook.

Due to the above downgrading of the ratings of Ampal's Series C Debentures and according to the terms of the Series C debentures, the Series C debenture holders are entitled to additional interest payments which will be calculated as follows:

The annual interest on Ampal's Series C Debentures since their issuance and until May 25, 2011 was 6.95%;

The annual interest on Ampal's Series C Debentures from May 26, 2011 and until August 10, 2011 was 7.70%;

The annual interest on Ampal's Series C Debentures from August 11, 2011 and thereafter will be 7.95%;

The weighted average interest that Ampal paid its Series C Debentures holders on September 7, 2011 was 7.41% and therefore the interest paid on September 7, 2011 was 3.705%;

The annual interest on Ampal's Series C Debentures as reflected from the above weighted average interest is 7.50%;

The annual interest on Ampal's Series C Debentures for the upcoming periods will be 7.95%; and

The semi-annual interest on Ampal's Series C Debentures for the upcoming periods will be 3.975%.

On April 27, 2011 and May 8, 2011, Ampal announced that Ampal's Board of Directors approved a repurchase program of the Debentures that are traded on the Tel Aviv Stock Exchange ("TASE"). Under the program, Ampal is authorized to repurchase the Debentures in a total amount not in excess of the NIS equivalent of \$30 million. The repurchases may be made in transactions in TASE or outside TASE, in block trades or otherwise. During the year ended December 31, 2011, the Company repurchased 10,619,296 Series A Debentures, 38,778,155 Series B Debentures and 7,084,437 Series C Debentures for an aggregate amount of \$12.1 million. The Company recorded a gain of \$5.8 million due to the repurchase of the debentures.

The program was suspended at the Board of Directors' discretion at the beginning of 2012.

Debentures Restructuring

On January 1, 2012, the Company held a meeting with the Holders where the Company proposed to restructure (the "Proposal") the Debentures to postpone all principal payments due thereunder for the next two years, while continuing to make the interest payments as scheduled. Under the Proposal, the principal amount of the Debentures would not be reduced, and after the two-year period the principal payment schedule for the Debentures would return to the original terms. The Company requested that the Holders appoint a delegation (a committee of representatives) of Holders to discuss the Proposal.

On January 18, 2012, the Company announced that two separate Holders' committees had been formed: one to represent the Series A and Series C Debenture holders and the other to represent the Series B Debenture holders (the "B Holders").

On January 22, 2012, the Company announced that its Board of Directors decided to postpone making the principal payments currently coming due on the Debentures, but to continue making interest payments as scheduled. In accordance with the decision, on January 31, 2012, the Company made an interest payment on the Series B Debentures (the "Series B Debentures") to the B Holders on the scheduled payment date, and the Company did not request the return of the Company's funds held by the trustee for the B Holders.

On February 2, 2012, in connection with negotiations regarding the restructuring of the Company's debentures, the Company provided an undertaking (the "A and C Undertaking") to the holders (collectively, the "A and C Holders") of the Company's Series A and Series C Debentures (collectively, the "A and C Series Debentures"), the joint representatives of the Holders (collectively, the "A and C Debenture Representatives") and the A and C Series Debentures' trustees (collectively, the "Trustees," and together with the A and C Holders and the A and C Debenture Representatives, collectively, the "A and C Debenture Parties"). Through the A and C Undertaking, the Company agreed to certain restrictions on its operations. The A and C Undertaking will remain in effect until the earlier of: (i) an agreement is

reached with the Company's Series A, Series B and Series C debenture holders; (ii) seven days after the Company notifies the Trustees that negotiations have ceased; (iii) upon the notification by any of the A and C Debenture Parties to the Company that negotiations have ceased; (iv) upon the initiation of legal proceedings by any of the A and C Debenture Parties; or (v) seven days after the Company initiates legal proceedings in connection with demands of the Company's debenture holders. The Company has agreed to the following restrictions, including, without limitation:

For as long as the A and C Undertaking is in effect,

- a. except in the ordinary course of their respective businesses, and only on arm's length terms and for consideration to be received solely by Ampal or the applicable subsidiary, neither the Company nor any of its subsidiaries will dispose of any of their respective material assets or shall voluntarily permit the creation of new liens on any of their respective properties; provided that the Company may take the actions described above upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;
- b. neither the Company nor any of its subsidiaries will be party to any new transactions with their respective controlling shareholders or any of their respective officers, or with any entity in which their respective controlling shareholders or officers have a personal interest; provided that the Company or a subsidiary may enter into any such transactions upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;

- c. the Company will not distribute any dividends without the prior written consent of the A and C Debenture Representatives;
- d. the Company or any of its subsidiaries will not repurchase any of its debentures;
- e. the Company will not make any payments (other than interest payments) on its debentures provided that the Company may make such payments upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;

The Company also agreed to bear certain expenses of the Trustees and the Debenture Representatives, and as security for the payment of such costs, the Company deposited NIS150,000 (approximately \$40,400) with the Trustees. Additionally, the Company agreed to fully cooperate with the Trustees and the A and C Debenture Representatives and provide them with all reasonably required information regarding the Company and its subsidiaries, subject to the Trustees and the A and C Debenture Representatives entering into a non-disclosure agreement with the Company.

The A and C Undertaking provides that nothing contained in the A and C Undertaking limits any party's right to defend its interests and assert its legal rights as it may deem fit, including through the initiation of legal or similar proceedings.

On February 20, 2012, a meeting of the B Holders was held at the request of the B Holders' trustee and on March 6, 2012, the B Holders voted (the "Series B Resolution") to accelerate and set to immediate repayment the entire outstanding amounts under the Series B Debentures. The Series B Resolution provided that the acceleration would be effective two weeks after March 6, 2012, unless an additional two-week extension was granted by the committee, formed by the B Holders (the "Series B Committee") to represent the B Holders. Such extension was granted on March 20, 2012, and currently the acceleration will be effective on April 3, 2012. Additional postponements of the effective date of the acceleration of the Series B Debentures are possible subject to the approval of the majority of the B Holders. As of March 12, 2012, due to the acceleration, the total amount outstanding (including interest) under the Series B Debentures (excluding the Series B Debentures held by the Company) is NIS 527,024,735 (approximately \$138.4 million).

Additionally, the B Holders voted to authorize the commencement of legal actions and other measures, at the discretion of Clal Finance Trusts 2007 Ltd., the trustee for the B Holders (the "Series B Trustee"), and/or at the recommendation of the Series B Committee, to collect the principal payment which was due on January 31, 2012 and which the Company did not make. The B Holders also voted to empower the Series B Committee to continue negotiations with the Company to settle payments to the B Holders and/or to restructure the Series B Debentures, to protect the rights of the B Holders and to receive all required information from the Company regarding its financial status and its ability to meet its obligations.

On February 23, 2012, the Company provided an undertaking (the "B Undertaking") to the representatives (collectively, the "B Debenture Representatives") of the B Holders. Through the B Undertaking, the Company has agreed to certain restrictions on its operations. The B Undertaking will remain in effect until the earlier of: (i) an agreement is reached with the Company's Series A, Series B and Series C debenture holders; (ii) seven days after the Company notifies the Series B Trustee that negotiations have ceased; (iii) upon the notification by any of the Series B Trustee, the B Holders or the B Debenture Representatives to the Company that negotiations have ceased; (iv) upon the initiation of legal proceedings against the Company (including, without limitation, a notice to the Company demanding acceleration of the debt); or (v) upon the initiation of legal proceedings against the Company by the Series B Trustee or anyone on its behalf in a proceeding not initiated by the Company. The Company has agreed to the following

restrictions, including, without limitation:

For as long as the B Undertaking is in effect,

- a. except in the ordinary course of their respective businesses, and only on arm's length terms and for consideration to be received by Ampal or by entities directly or indirectly controlled by Ampal ("Controlled Entities"), neither the Company nor any of the Controlled Entities will dispose of, provide options on or create liens on any of their respective material assets (including, without limitation, in its investments in East Mediterranean Gas Co. and the sugarcane ethanol production project in Colombia);
- b. neither the Company nor any of the Controlled Entities will be party to any new transactions with their respective controlling shareholders or any of their respective officers, or with any entity in which their respective controlling shareholders or officers have a personal interest (other than with respect to certain existing and ongoing transactions);

- c. the Company will not distribute any dividends and will not repay any shareholders' loan without the prior written consent of the B Debenture Representatives;
- d. neither the Company nor any of the Controlled Entities will make any payments to the controlling shareholder of the Company, his relatives or any entities owned or controlled by him and/or by his relatives (other than with respect to certain existing and ongoing transactions), without the prior written consent of the B Debenture Representatives;
- e. neither the Company nor any the Controlled Entities will make any payments to any third party, if such payments are secured by a direct or indirect guaranty of the controlling shareholder of the Company, without the prior written consent of the B Debenture Representatives;
- f. neither the Company nor any of the Controlled Entities will make any payments to their respective financial creditors (other than with respect to certain payments to banks) without the prior written consent of the B Debenture Representatives;
- g. neither the Company nor any of the Controlled Entities will repurchase, resell, transfer or pledge any of its debentures, or take any actions related to any of its repurchased debentures, other than any actions required to deregister such debentures from trade; and
- h. the Company will not make any payments on its debentures (other than interest payments).

The Company also agreed to bear certain expenses of the Series B Trustee and the B Debenture Representatives, and as security for the payment of such costs, the Company deposited NIS 250,000 (approximately \$66,500) with the Series B Trustee. Additionally, the Company agreed to fully cooperate with the Series B Trustee and the B Debenture Representatives and provide them with all required information regarding the Company, its assets and its subsidiaries, subject to the Series B Trustee and the B Debenture Representatives entering into a non-disclosure agreement with the Company.

The B Undertaking provides that nothing contained in the B Undertaking limits any party's right to defend its interests and assert its legal rights as it may deem fit, including through the initiation of legal or similar proceedings.

On March 5, 2012, the Company announced that its Board of Directors decided that the Company intended to make an interest payment which was due to be paid to the Series C Debenture holders on March 7, 2012 (the "Series C Interest Payment"), if the Series B Resolution was not approved. The Board further decided that if the Series B Resolution was approved (as it was on March 6, 2012, as described above), the Series C Interest Payment would be postponed until it was clear to the Company whether the Series B Resolution to accelerate the Company's entire debt owed to the B Holders and set it to immediate payment would be enforced.

On March 26, 2012, the Company announced that the Series C Interest Payment will be paid on March 29, 2012 by transferring funds that are deposited with the trustee for the Series C debenture holders, in favor of the Series C debenture holders, and in accordance with the resolution of the Series C debenture holders of March 22, 2012.

A meeting of the Series A and Series C Debenture holders is scheduled to be held on April 3, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda is a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures.

Loans

Ampal funded Gadot's three-stage acquisition with a combination of available cash and the proceeds of the credit facility, as amended from time to time (the "Credit Facility"), between Merhav-Ampal Group Ltd. (formerly Merhav-Ampal Energy Ltd.), an Israeli corporation and wholly owned subsidiary of Ampal ("MAG"), and Israel Discount Bank Ltd. ("IDB"), for approximately \$87.4 million. The Credit Facility is divided into two equal loans of approximately \$43.7 million. The first loan is a revolving loan that has no principal payments and may be repaid in full or in part on December 31 of each year until 2019, when a single balloon payment will become due. The second loan also matures in 2019, has no principal payments for the first one and a half years, and shall thereafter be paid in equal installments over the remaining 9.5 years of the term. As of December 31, 2011, the outstanding debt under the loan amounts to \$35.8 million. Interest on both loans accrues at a floating rate currently equal to LIBOR plus 3% and is payable on a current basis. Ampal has guaranteed all the obligations of MAG under the Credit Facility and Ampal's interest in Gadot has also been pledged to IDB as a security for the Credit Facility. Yosef Maiman has agreed with IDB to maintain ownership of a certain amount of the Company's Class A Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type. The Company has certain financial and other covenants in the Credit Facility. On November 8, 2011, MAG and IDB signed an amendment to the Credit Facility amending certain requirements under certain of the Company's equity maintenance covenants so that they will not apply until the filing of the Company's Quarterly Report on Form 10-Q for the first quarter of the 2013 fiscal year. Due to the Company's other debts (mainly, to its debenture holders), in accordance with the terms of the Credit Facility, IDB may decide to accelerate the Credit Facility and set it to immediate prepayment.

As of December 31, 2011, the Company has a \$3.3 million loan with Union Bank of Israel that bears interest at the rate of LIBOR plus 2% to be repaid in two remaining annual installments on April 2, 2012 and 2013. The loan agreement contains financial and other covenants. The Company determined that in connection with the preparation of its December 31, 2011 financial statements that it would not meet the covenants, and that therefore, Union Bank of Israel may decide to accelerate the loan and set it to immediate prepayment.

As of December 31, 2011, the Company has \$95.9 million in notes from institutional investors who own 50% of Merhav Ampal Energy Holdings, LP. The notes are not linked to the CPI, bear no interest and are repayable upon agreement by both parties.

The Company has a long-term loan from Bank Hapoalim in the aggregate amount of \$3.5 million. The loan matures in 2018 and shall be paid in seven equal annual installments. As of December 31, 2011, the outstanding debt under the loan amounts to \$3.5 million. Interest accrues at a floating rate equal to LIBOR plus 3.5% and is payable on a quarterly basis.

As of December 31, 2011, Gadot had \$2.3 million outstanding under its other debentures. These debentures are not convertible into shares and are repayable in five equal annual installments on September 15 of each of the years 2008 through 2012. The outstanding balance of the principal of the debentures bears interest at an annual rate of 6.5%. The principal and interest of the debentures are linked to the CPI and the interest is payable in semi-annual installments on March 15 and September 15 of each of the years 2006 through 2012.

As of December 31, 2011, Gadot has short-term loans, including current maturities, payable in the amount of \$127.4 million and long-term loans payable in the amount of \$127.3 million. The various short term-loans payable are either unlinked or linked to the U.S. Dollar or Euro and bear interest at annual rates between 2.3% to 6.3%. The various long-term loans payable are either unlinked or linked to the CPI or linked to the U.S. Dollar or Euro and bear interest at annual rates between 0.3% to 11.4%.

The weighted average interest rates and the balances of these short-term borrowings at December 31, 2011 and December 31, 2010 were 4.0% on \$135.5 million and 3.8% on \$131.9 million, respectively.

Tabular Disclosure of Contractual Obligations

Our significant contractual obligations as of December 31, 2011 are summarized in the following table:

| Contractual Obligations | Payments due by period as of December 31, 2011 (in thousands) | | | | |
|---------------------------------|---|---------------------|-------------|-----------|----------------------|
| | Total | Less than 1 year | 1 – 3 years | 3-5 years | More than 5 years |
| Short-Term Debt: | | | | | |
| Gadot - working capital | \$100,772 | \$100,772 | | | |
| Gadot - current maturities | \$26,606 | \$26,606 | | | |
| Ampal - revolving credit line | \$316 | \$316 | | | |
| Ampal - current maturities | \$83,352 | \$83,352 | | | |
| Debentures – current maturities | \$237,084 | \$237,084 | | | |
| Long-Term Debt: | | | | | |
| Ampal | \$98,922 | | \$1,000 | \$1,000 | \$96,922 |
| Gadot: | | | | | |
| Vessels | \$40,539 | | \$15,606 | \$3,845 | \$21,088 |
| Other | \$83,329 | | \$22,959 | \$21,072 | \$42,758 |
| Debentures | \$-- | | \$-- | \$-- | \$-- |

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| | | | | | |
|--------------------------------|-----------|-----------|----------|----------|-----------|
| Total Debt | \$670,424 | \$448,130 | \$39,565 | \$25,917 | \$160,768 |
| Contractual Obligations: | | | | | |
| Operating Lease Obligation (1) | \$161,910 | \$38,575 | \$51,361 | \$20,676 | \$51,298 |
| Expected interest payment (2) | \$102,011 | \$24,770 | \$39,621 | \$22,279 | \$15,341 |
| Ship Purchase Obligations | \$45,690 | \$12,057 | \$17,017 | \$16,616 | \$-- |
| Total | 983,991 | 523,532 | 147,564 | 85,488 | 227,407 |

(1) See Note 19 to Ampal's consolidated financial statements included in this Report for the fiscal year ended December 31, 2011.

(2) In calculating estimated interest payments on outstanding debt obligations, the Company assumed an exchange rate as of December 31, 2011 of NIS 3.821 to 1 U.S. dollar.

As of December 31, 2011, the Company issued guarantees on certain outstanding loans to its investees and suppliers in the aggregate principal amount of \$39.3 million. This includes:

- (1) The Company provided a \$8.7 million guarantee on indebtedness incurred by Bay Heart Ltd.
- (2) \$30.6 million guarantees of Gadot for suppliers.

Off-Balance Sheet Arrangements

Other than the foreign currency contracts specified below, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

Foreign Currency Contracts

The Company's derivative financial instruments consist of foreign currency forward exchange contracts to purchase or sell U.S. dollars. These contracts are utilized by the Company, from time to time, to manage risk exposure to movements in foreign exchange rates. None of these contracts have been designated as hedging instruments. These contracts are recognized as assets or liabilities on the balance sheet at their fair value, which is the estimated amount at which they could be settled, based on market prices or dealer quotes, where available, or based on pricing models. Changes in fair value are recognized currently in earnings.

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

On April 1, 2009, the Company entered into a interest rate SWAP agreement with respect to its loan to finance the purchase of Gadot in the principal amount of \$43.7 million, due 2019. As a result of this agreement, the Company is currently paying a fixed interest rate of 2.95% as compared to LIBOR in the original Gadot loan agreement.

As of December 31, 2011, the net value of the currency SWAPs resulted in a \$0.4 million increase in other assets and a \$5.2 million increase in interest expense.

CHANGES IN SHAREHOLDERS' EQUITY

There were no repurchases of the Company's equity securities during the fiscal year ended December 31, 2011.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See pages 1 through 39 of the financial statements attached to this Report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). The Company's management with the participation of the Company's Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B.

OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to directors, executive officers and corporate governance required by this Item 10 is hereby incorporated in this Annual Report on Form 10-K by reference to our Proxy Statement, to be filed with the Securities and Exchange Commission (the "SEC") within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for our annual meeting of stockholders to be held in 2012.

ITEM 11. EXECUTIVE COMPENSATION

The information with respect to executive compensation required by this Item 11 is hereby incorporated in this Annual Report on Form 10-K by reference to our Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for our annual meeting of stockholders to be held in 2012.

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

The information with respect to security ownership of certain beneficial owners and management and related stockholder matters required by this Item 12 is hereby incorporated in this Annual Report on Form 10-K by reference to our Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for our annual meeting of stockholders to be held in 2012.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information with respect to certain relationships and related transactions and director independence required by this Item 13 is hereby incorporated in this Annual Report on Form 10-K by reference to our Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for our annual meeting of stockholders to be held in 2012.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information with respect to principal accountant fees and services required by this Item 14 is hereby incorporated in this Annual Report on Form 10-K by reference to our Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for our annual meeting of stockholders to be held in 2012.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

| | Page Reference |
|--|-------------------|
| (1) Financial Statements and Supplementary Data | |
| Ampal-American Israel Corporation and Subsidiaries | |
| <u>Report of Independent Registered Public Accounting Firm</u> | 1 |
| <u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u> | 2 |
| <u>Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009</u> | 4 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009</u> | 5 |
| <u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009</u> | 7 |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2010 and 2009 (included as part of the Statements of Changes in Shareholders' Equity for the respective years)</u> | 7 |
| <u>Notes to Consolidated Financial Statements</u> | 10 |

Supplementary Data:

(2) Financial Statement Schedules

(i) Schedule of Representative Rates of Exchange between the U.S. dollar and NIS for three years ended December 31, 2011

Representative Rates of Exchange
Between the U.S. dollar and the New Israeli Shekel
For the Three Years Ended December 31, 2011

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

| | 2011 | 2010 | 2009 |
|----------|-------|-------|--------|
| March 31 | 3.481 | 3.713 | 4.1880 |
| June 30 | 3.415 | 3.875 | 3.9190 |

| | | | |
|--------------|-------|-------|--------|
| September 30 | 3.712 | 3.665 | 3.7580 |
| December 31 | 3.821 | 3.549 | 3.7750 |

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

Bay Heart Ltd.

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, filed with the SEC on August 14, 1997 and incorporated herein by reference, File No. 0-5380).
- 3b. Certificate of Amendment of Certificate of Incorporation, dated July 18, 2006 (Filed as Exhibit 3.1 to Form 8-K, filed with the SEC on July 21, 2006, and incorporated herein by reference).
- 3c. Certificate of Amendment of Certificate of Incorporation, dated February 7, 2007 (Filed as Exhibit 3.4 to Form S-3, filed with the SEC on February 28, 2007, and incorporated herein by reference).
- 3d. By-Laws of Ampal-American Israel Corporation as amended, dated February 14, 2002 (Filed as Exhibit 3b. of Form 10-K, filed with the SEC on March 28, 2002, and incorporated herein by reference).

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

- 4a. Form of Indenture dated as of November 1, 1984. (Filed as Exhibit 4a. to Registration Statement No. 2-88582 and incorporated herein by reference).
- 4b. Form of Indenture dated as of May 1, 1986. (Filed as Exhibit 4a. to Pre-Effective Amendment No. 1 to Registration Statement No. 33-5578 and incorporated herein by reference).
- 4c. English translation of the original Hebrew language Trust Deed dated November 20, 2006 between Ampal-American Israel Corporation and Hermetic Trust (1975) Ltd. for debt offering. (Filed as Exhibit 4c to Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on April 2, 2007, and incorporated herein by reference, File No. 000-00538).
- 4d. English translation of the original Hebrew language Trust Deed dated April 6, 2008, between Ampal-American Israel Corporation and Clal Finance Trustees 2007 Ltd., as amended, for Series B debentures offering in Israel (Filed as Exhibit 4.a to Form 10-Q, filed with the SEC on May 7, 2008, and incorporated herein by reference).

Exhibit 10 - Material Contracts

- 10a. The Company's 2000 Incentive Plan (Filed as an exhibit to the Company's Proxy Statement for the 2000 Annual Meeting of Shareholders, filed with the SEC on June 7, 2000, and incorporated herein by reference).*
- 10b. Amendment to the Company's 2000 Incentive Plan adopted by the Board of Directors on February 14, 2002. (Filed as Exhibit 10i to Form 10-K, filed with the SEC on March 28, 2003, and incorporated herein by reference).*
- 10c. Compensation and Indemnification Agreement, dated as of December 13, 2004, between Ampal-American Israel Corporation and each of Mr. Yehuda Karni, Mr. Eitan Haber and Mr. Menachem Morag. (Filed as Exhibit 10j to Form 10-K, filed with the SEC on March 15, 2005, and incorporated herein by reference).
- 10d. Omnibus Agreement, dated as of December 1, 2005, between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd. (Filed as Exhibit 10l to Form 10-K, filed with the SEC on March 29, 2006, and incorporated herein by reference).

- 10e. Form of Option Agreement pursuant to the 2000 Incentive Plan (Filed as Exhibit 99.1 to Form 8-K, filed with the SEC on October 11, 2005, and incorporated herein by reference). *
- 10f. Form of Option Agreement for December 12, 2006 grants pursuant to the 2000 Incentive Plan. (Filed as Exhibit 10o to Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on April 2, 2007, and incorporated herein by reference, File No. 000-00538). *
- 10g. Stock Purchase Agreement between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd., dated August 1, 2006 (Filed as Exhibit 10 to Form 8-K, filed with the SEC on August 3, 2006, and incorporated herein by reference).
- 10h. Stock Purchase Agreement between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd., dated November 28, 2006 (Filed as Exhibit 10.1 to Form 8-K, filed with the SEC on December 1, 2006, and incorporated herein by reference).
- 10i. Agreement of Certain Shareholders between Merhav Ampal Energy Ltd. and Merhav M.N.F. Ltd. dated August 1, 2006. (Filed as Exhibit 10r to Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on April 2, 2007, and incorporated herein by reference, File No. 000-00538).
- 10j. Form of Convertible Promissory Note between Ampal-American Israel Corporation and Merhav M.N.F. Ltd. (Filed as Exhibit 10.2 to Form 8-K, filed with the SEC on December 1, 2006, and incorporated herein by reference).

- 10k. English translation of the original Hebrew language Form of Employment Agreement for each of Yosef A. Maiman, Jack Bigio, Irit Eluz, Yoram Firon and Amit Mantsur . (Filed as Exhibit 10x to Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on April 2, 2007, and incorporated herein by reference, File No. 000-00538). *
- 10l. Understanding for the Repayment of a Foreign Currency Loan between Bank Hapoalim BM and Ampal (Israel) Ltd. dated April 26, 2007. (Filed as Exhibit 10.1 to Form 10-Q, filed with the SEC on May 15, 2007, and incorporated herein by reference).
- 10m. Letter of Understanding between Bank Hapoalim BM and Ampal Israel (Ltd), dated April 26, 2007. (Filed as Exhibit 10.2 to Form 10-Q, filed with the SEC on May 15, 2007, and incorporated herein by reference).
- 10n. Letter of Understanding between Bank Hapoalim BM and Ampal-American Israel Corporation, dated April 26, 2007 (Filed as Exhibit 10.3 to Form 10-Q, filed with the SEC on May 15, 2007, and incorporated herein by reference).
- 10o. Agreement among Ampal Industries Inc., Phoenix Holdings Ltd. and Golden Meybar (2007) Ltd., dated July 10, 2007 (Filed as Exhibit 10.2 to Form 10-Q, filed with the SEC on August 8, 2007, and incorporated herein by reference).
- 10p. Agreement between Merhav Ampal Energy Ltd. and Netherlands Industrial Chemical Enterprises B.V., dated November 20, 2007, to purchase a 65.5% controlling interest in Gadot Chemical Tankers and Terminals Ltd. (Filed as Exhibit 10ee to Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on March 17, 2008, and incorporated herein by reference, File No. 000-00538).
- 10q. Credit Facility between Merhav Ampal Energy Ltd. and Israel Discount Bank Ltd., dated November 29, 2007, for the funding of the Gadot transaction (Filed as Exhibit 10ff to Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on March 17, 2008, and incorporated herein by reference, File No. 000-00538).
- 10r. Option Agreement between the Company and Merhav M.N.F. Ltd., dated December 25, 2007, providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project in Colombia (Filed as Exhibit 10gg to Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on March 17, 2008, and incorporated herein by reference, File No. 000-00538).
- 10s. Amended Option Agreement between the Company and Merhav M.N.F. Ltd., dated December 25, 2008, providing Ampal with the option to acquire up to a 35% equity interest in a sugarcane ethanol production project in Colombia (Filed as Exhibit 10ee to Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on March 5, 2009, and incorporated herein by reference, File No. 000-00538).
- 10t. Promissory Note, dated as of December 25, 2007, by Merhav M.N.F. Ltd. in favor of Ampal (Filed as Exhibit 10hh to Report on Form 10-K for the fiscal year ended December 31, 2007 and incorporated herein by reference, File No. 000-00538).
- 10u. Amended and Restated Promissory Note, dated as of December 25, 2008, by Merhav M.N.F. Ltd. in favor of Ampal (Filed as Exhibit 10.3 to Form 10-Q, filed with the SEC on August 4, 2010, and incorporated herein by reference).
- 10v. Pledge Agreement, dated December 25, 2007, between Merhav M.N.F. Ltd. and Ampal (Filed as Exhibit 10ii to Form 10-K for the fiscal year ended December 31, 2007, filed with the SEC on March 17, 2008, and incorporated

herein by reference, File No. 000-00538).

- 10w. Guaranty Agreement, dated December 25, 2008, between Yosef A. Maiman, Merhav M.N.F. Ltd. and Ampal (Filed as Exhibit 10ii to Form 10-K for the fiscal year ended December 31, 2008,. filed with the SEC on March 5, 2009, and incorporated herein by reference, File No. 000-00538).
- 10x. Form of Stock Option Certificate pursuant to the 2000 Incentive Plan for Repricing of Options on December 8, 2008 (Filed as Exhibit 10.1 to Form 8-K, filed with the SEC on December 12, 2008, and incorporated herein by reference).*
- 10y. Form of Stock Option Certificate pursuant to the 2000 Incentive Plan for Options Granted on December 8, 2008 (Filed as Exhibit 10.2 to Form 8-K, filed with the SEC on December 12, 2008, and incorporated herein by reference).*
- 10z. English translation of Hebrew Language Employment Agreement between Gadot Chemical Tankers and Terminals Ltd. and Erez I. Meltzer, dated April 13, 2009 (Filed as Exhibit 10.1 to Form 8-K, filed with the SEC on April 14, 2009, and incorporated herein by reference).*
- 10aa. Asset Purchase Agreement, dated November 16, 2009, as amended on January 26, 2010, between Merhav Ampal Energy Ltd. (on behalf of 012 Smile Telecom Ltd.) and 012 Smile Communications Ltd. (Filed as Exhibit 10aa to Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on March 8, 2010, and incorporated herein by reference, File No. 000-00538).

- 10bb. English translation of the original Hebrew language 012 Credit Facility, dated January 31, 2010, between 012 Smile Telecom Ltd., Bank Leumi Le'Israel B.M. and Israel Discount Bank Ltd. (Filed as Exhibit 10bb to Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on March 8, 2010, and incorporated herein by reference, File No. 000-00538).
- 10cc. English translation of the original Hebrew language 012 Loan Agreement, dated January 31, 2010, between Merhav Ampal Energy Ltd., 012 Smile Telecom Ltd., Harel Insurance Company Ltd. and its affiliates and Menora Mivtachim Insurance Ltd. and its affiliates. (Filed as Exhibit 10cc to Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on March 8, 2010, and incorporated herein by reference, File No. 000-00538).
- 10dd. Option Exercise Agreement, dated December 31, 2009, between Ampal and Merhav M.N.F. Ltd., pursuant to which Ampal exercised its option to convert Ampal's existing loan into a 25% equity interest in the sugarcane ethanol production project in Colombia. (Filed as Exhibit 10dd to Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on March 8, 2010, and incorporated herein by reference, File No. 000-00538).
- 10ee. Share Purchase Agreement, dated October 13, 2010, by and among Partner Communications Company Ltd., Merhav Ampal Energy Ltd. and 012 Smile Telecom Ltd., as amended on February 15, 2011, February 20, 2011, February 28, 2011 and March 3, 2011.
- 10ff. Stock Purchase Agreement between Gadot Chemical Tankers and Terminals Ltd. and Mr. Yosef A. Maiman, dated June 15, 2010 (Filed as Exhibit 10.1 to Form 10-Q, filed with the SEC on August 4, 2010, and incorporated herein by reference).
- 10gg. Assignment and Assumption Agreement between Gadot Chemical Tankers and Terminals Ltd. and Gadot Sales and Distribution Ltd., dated July 1, 2010 (Filed as Exhibit 10.2 to Form 10-Q, filed with the SEC on August 4, 2010, and incorporated herein by reference).
- 10hh. Amendment to Colombia Ethanol Project Option Agreement, dated December 31, 2010 (Filed as Exhibit 10hh to Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on March 17, 2011, and incorporated herein by reference).
- 10ii. Amendment to Colombia Ethanol Project Option Agreement, dated December 8, 2011.

* Management contract, compensatory plan or arrangement.

Exhibit 11 - Statement re Computation of Earnings Per Share

Exhibit 21 - Subsidiaries of the Registrant

Ampal Financial Services Ltd., an Israeli company

Ampal Development (Israel) Ltd., an Israeli company

Ampal Realty Corporation, a New York corporation

Ampal Communications, Inc., a Delaware corporation

Ampal Enterprises Ltd, an Israeli Company

Ampal Holdings (1991) Ltd., an Israeli company

Ampal Industries, Inc., a Delaware corporation

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

Ampal (Israel) Ltd., an Israeli company

Ampal Properties Ltd., an Israeli company

Ampal Communication LP, an Israeli limited partnership

Ampal Communication Holdings Ltd., an Israeli company

Ampal Energy Ltd., an Israeli company

Merhav-Ampal Group Ltd., an Israeli company

Country Club Kfar Saba Ltd., an Israeli company

Merhav Ampal Energy Limited Partnership, an Israeli limited partnership

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

Global Wind Energy Israel Ltd., an Israeli company

Global Wind Energy Cyprus Limited, a Cyprus company

Global Wind Energy Cyprus Poland Limited, a Cyprus company (47.5%)

CL-AM Argitheia Public Limited Energy Company, a Greek company

GWE Renex Aioliki Karditsas SA, a Greek company (43.225%)

Global Wind Energy Poland Sp. z o.o. , a Polish company

Global Wind Energy Poland 2 Sp. z o.o., a Polish company

KWE SP. Z O.O., a Polish company (23.75%)

Gadot Chemicals Tankers & Terminals Ltd., an Israeli company

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

Gadot Sales & Distribution Ltd., an Israeli company

Gadot Yam Chemical Shipping Ltd., an Israeli company

GCT Ltd., a Connecticut corporation

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

GCT Netherlands B.V., a Dutch company

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

Gadot Lab Supplies Ltd., an Israeli company

Euro –Gama Properties Ltd., an Israeli company

GCT Holding B.V., a Dutch company

Gadot Storage & Handling Limited Partnership, an Israeli limited partnership

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

Bax Chemicals B.V., a Dutch company

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

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

Bax Chemicals Italia SRL., an Italian company

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

Chyma Hellas S.A. Greece, a Greek company

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

VLS Group Germany GmbH, a German company

Vopak Logistic Services Pernis B.V., a Dutch company

VLS Group Pernis B.V., a Dutch company

VLS Moerdijk B.V., a Dutch company

Chemical Sailor Ltd., a Maltese Company

Chemical Marketer Shipping limited., a Maltese Company

Distributor Shipping a Maltese Company

Blue Sky Shipping Ltd., a Marshall Islands Company

Product Tanker Inc., a Marshall Islands Company

Sea Coral Shipping Ltd., a Marshall Islands Company

Golden Globe Maritime S.A., a Marshall Islands Company

GY General Cargo Ltd., a Marshall Islands Company

Lausanne Maritime Inc., a Liberian Company

Lutetia Maritime Inc., a Liberian Company

Neda Maritime Inc., a Liberian Company

Gammacrux Maritime Inc., a Liberian Company

Gadko Logistics Ltd., an Israeli company

Tanco International Ltd., an Israeli company

Packer Shipping Ltd., an Israeli company

Conmart (Ship Agents) Ltd., an Israeli company

FCC Shipping Ltd., an Israeli company

Zurgadim Ltd., an Israeli company

Merhav Agro Ltd., an Israeli company

Gadot Solar Solutions Ltd., an Israeli company

Atyah Solar Ltd., a Cypriot company

Ghent Holdings Ltd., an Israeli company

VLS-Group Ghent BVBA., a Belgian company

Chemipharm Agencies Limited Partnership, an Israeli limited partnership

Fingad Shipping Ltd, an Israeli company

Chemship B.V., a Dutch company

Chem-Tankers CV, a Dutch company

Gadot Storage & Handling Co., an Israeli company

Cooperatie G.C.T Ghent U.A, a Dutch company

ADPO Ghent N.V., a Belgian company

BAX Holding B.V., a Dutch company

Bax Aromatics BV., a Dutch company

GCT Holding B.V., a Dutch company

LLS, an Israeli company

Logsource, a German company

Savitar Ebergy systems Ltd., an Israeli company

Gadot - Yarok Geva project Ltd., an Israeli company

Agrinet Central Europe (A.C.E) Ltd., an Israeli company

Netafim Slovakia, s.r.o., a Slovak company

Netafim Czech, s.r.o., a Czech company

Netafim - Irygacja Sp.z o.o., a Polish company

Exhibit 23 - Consents of Experts and Counsel:

23.1 Kesselman & Kesselman CPAs (Isr), a member of PricewaterhouseCoopers International Limited E-23.1

23.2 Brightman Almagor & Co., Certified Public Accountants, a member firm of Deloitte Touche
Tohmatsu E-23.2

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

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

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 28th day of March, 2012.

AMPAL-AMERICAN
ISRAEL CORPORATION

By: /s/ YOSEF A. MAIMAN
Yosef A. Maiman, Chief Executive
Officer and President (Principal Executive
Officer)

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

| Signatures | Title | Date |
|---|--|----------------|
| /s/ YOSEF A. MAIMAN Yosef A. Maiman | Chairman of the Board of Directors, President & CEO | March 28, 2012 |
| /s/ LEO MALAMUD Leo Malamud | Director | March 28, 2012 |
| /s/ DR. JOSEPH YERUSHALMI Dr. Joseph Yerushalmi | Director | March 28, 2012 |
| /s/ DANIEL VAKNIN Daniel Vaknin | Director | March 28, 2012 |
| /s/ MENAHEM MORAG Menahem Morag | Director | March 28, 2012 |
| /s/ EREZ I. MELTZER Erez I. Meltzer | Director | March 28, 2012 |
| /s/ REVITAL DEGANI Revital Degani | Director | March 28, 2012 |
| /s/ GIDEON WEINSTEIN Gideon Weinstein | Director | March 28, 2012 |
| /s/ SABIH SAYLAN Sabih Saylan | Director | March 28, 2012 |
| /s/ IRIT ELUZ | Director, CFO, Senior Vice President | March 28, 2012 |

Irit Eluz – Finance and Treasurer
(Principal Financial Officer)

/s/ NIR BERNSTEIN Controller
Nir Bernstein (Principal Accounting Officer)

March 28, 2012

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Report of Independent Registered Public Accounting Firm

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

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and changes in equity present fairly, in all material respects, the financial position of Ampal-American Israel Corporation and subsidiaries (the "Company") at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, based on our audits and the report of other auditors, the financial statement schedules listed in the consolidated balance sheets and the related consolidated statements of operations, cash flows and changes in equity present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We did not audit the financial statements and financial statement schedules of affiliated company, which statements reflect in the balance sheets is of \$5,409 thousands and \$6,209 thousands as of December 31, 2011 and 2010, respectively, and total share in equity loss of \$1,134 thousands, \$972 thousands and \$1,814 thousands for each of the three years in the period ended December 31, 2011. Those statements and schedules were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for this company, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion

The accompanying consolidated financial statements have been prepared assuming that Ampal will continue as a going concern. As discussed in Note 1a to the financial statements Ampal does not have sufficient cash and other resources to serve its debt and finance its ongoing operations. This fact raises substantial doubts as to the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1a. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Tel-Aviv, Israel
March 28, 2012

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | Assets As At | |
|---|--------------------------------|-------------------------|
| | December 31, 2011 | December 31, 2010 |
| ASSETS | (U.S. Dollars in thousands) | |
| Current assets: | | |
| Cash and cash equivalents | \$54,333 | \$33,341 |
| Marketable securities (Note 2(b)) | 177 | 890 |
| Accounts receivable (Net of allowance for doubtful amounts \$2,510 and \$2,068) | 111,172 | 113,837 |
| Deposits and notes receivable | 12,682 | 17,216 |
| Inventories | 37,757 | 34,810 |
| Other assets | 28,912 | 26,120 |
| Held for sale assets (Note 16) | 0 | 412,239 |
| Total current assets | 245,033 | 638,453 |
| Non-current assets: | | |
| Investments (Notes 2, 3 and 17) | 269,871 | 371,751 |
| Fixed assets, less accumulated depreciation of \$49,556 and \$32,633 (Note 8) | 190,524 | 200,932 |
| Deposits and notes receivable | 32,107 | 50,192 |
| Deferred taxes (Note 15) | 22,086 | 41,422 |
| Other assets | 9,701 | 11,763 |
| Goodwill (Note 7) | 67,094 | 70,670 |
| Intangible assets (Note 6) | 10,193 | 17,063 |
| Total Non-current assets | 601,576 | 763,793 |
| TOTAL ASSETS | \$846,609 | \$1,402,246 |

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)

| | Liabilities and Equity As At | |
|---|---------------------------------|-------------------------|
| | December 31, 2011 | December 31, 2010 |
| | (U.S. Dollars in thousands) | |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes and loans payable and current maturities of long term loans (Note 9) | \$211,047 | \$ 195,827 |
| Accounts payable, accrued expenses and others (Note 11) | 91,900 | 102,104 |
| Debentures - current maturities (Note 10) | 237,084 | 14,749 |
| Held for sale liabilities (Note 16) | 0 | 292,240 |
| Total current liabilities | 540,031 | 604,920 |
| Long term liabilities: | | |
| Notes and loans payable (Note 9) | 130,327 | 222,109 |
| Notes to non-related limited partners | 95,922 | 103,274 |
| Debentures (Note 10) | 0 | 265,590 |
| Deferred taxes (Note 15) | 13,702 | 13,775 |
| Other long term liabilities (Note 11) | 16,661 | 14,030 |
| Total long term liabilities | 256,612 | 618,778 |
| Total liabilities | 796,643 | 1,223,698 |
| Commitments and Contingencies (Note 19) | | |
| Redeemable noncontrolling interest | 604 | 0 |
| EQUITY (Note 12) | | |
| Ampal shareholders' equity: | | |
| Class A Stock \$1 par value; December 31, 2011 and 2010, 100,000,000 shares authorized; issued 63,277,321 shares; outstanding 56,133,764 shares | 63,277 | 63,277 |
| Additional paid-in capital | 182,942 | 182,924 |
| Accumulated deficit | (127,637) | (32,316) |
| Accumulated other comprehensive income (loss) | (11,781) | 103 |
| Treasury stock, at cost (December 31, 2011 and 2010, 7,143,557 shares) | (28,763) | (28,763) |
| Total Ampal shareholders' equity | 78,038 | 185,225 |
| Noncontrolling interest | (28,676) | (6,677) |
| Total equity | 49,362 | 178,548 |

| | | |
|------------------------------|------------|--------------|
| TOTAL LIABILITIES AND EQUITY | \$ 846,609 | \$ 1,402,246 |
|------------------------------|------------|--------------|

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Fiscal Year Ended December 31, | | |
|--|--|-------------|-------------|
| | 2011 | 2010 | 2009 |
| | (U.S. Dollars in thousands, except per share data) | | |
| REVENUES: | | | |
| Chemical income | \$540,426 | \$496,551 | \$414,468 |
| Real estate income | 346 | 332 | 237 |
| Realized gains on investments | 99 | 935 | 870 |
| Realized and unrealized gains (losses) on marketable securities | (932) | 534 | 250 |
| Gain (loss) on sale of fixed assets | 231 | 43 | (156) |
| Interest income | 3,535 | 925 | 3,553 |
| Translation gain | 21,735 | 0 | 5,399 |
| Leisure-time income | 2,935 | 2,980 | 2,700 |
| Gain from redemption of debt and other income | 6,964 | 2,662 | 3,834 |
| Total revenues | 575,339 | 504,962 | 431,155 |
| EXPENSES: | | | |
| Chemical expense - cost of goods sold | 495,320 | 451,490 | 373,962 |
| Real estate expenses | 621 | 704 | 769 |
| Equity in losses of affiliates, net (Note 17) | 14 | 932 | 1,214 |
| Loss from impairment of investments and real estate | 101,084 | 75 | 447 |
| Interest expenses | 43,852 | 44,233 | 33,159 |
| Translation loss, net | 0 | 20,159 | 0 |
| Marketing expenses | 10,670 | 6,044 | 6,917 |
| General, administrative and other expenses | 59,123 | 59,648 | 44,996 |
| Total expenses | 710,684 | 583,285 | 461,464 |
| Loss from continuing operations before income taxes | (135,345) | (78,323) | (30,309) |
| Income tax benefit (provision) (Note 15) | (15,765) | 7,071 | 10,403 |
| Net loss from continuing operations after tax benefits | (151,110) | (71,252) | (19,906) |
| Discontinued operations: | | | |
| Gain from disposal, net of tax | 28,891 | | |
| Income from discontinued operations, net of tax | 5,175 | 19,903 | 0 |
| | 34,066 | 19,903 | 0 |
| Net loss for the year | (117,044) | (51,349) | (19,906) |
| Less: Net loss attributable to noncontrolling interests | 21,723 | 6,607 | 425 |
| Net loss attributable to Ampal's shareholders | \$(95,321) | \$(44,742) | \$(19,481) |
| Basic and diluted EPS (Note 14): | | | |
| Loss from continuing operations attributable to Ampal's shareholders | (2.30) | (1.15) | (0.35) |
| Discontinued operations attributable to Ampal's shareholders | 0.61 | 0.35 | 0 |
| | \$(1.69) | \$(0.80) | \$(0.35) |
| Shares used in calculation (in thousands) | 56,134 | 56,134 | 56,151 |

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

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

| | Fiscal Year Ended December 31, | | |
|---|--------------------------------|------------------|-----------------|
| | 2011 | 2010 | 2009 |
| | (U.S. Dollars in thousands) | | |
| Cash flows from operating activities: | | | |
| Net loss | \$(117,044) | \$(51,349) | \$(19,906) |
| Net income from discontinued operations | (34,066) | (19,903) | 0 |
| Loss from continuing operations | (151,110) | (71,252) | \$(19,906) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Equity in losses of affiliates | 14 | 932 | 1,214 |
| Losses (gains) on investments, net | 932 | (1,469) | (1,125) |
| Losses (gain) on sale of fixed assets | (231) | (43) | 156 |
| Depreciation and amortization expense | 26,056 | 18,373 | 16,303 |
| Impairment of investments | 101,084 | 75 | 447 |
| Non cash stock based compensation | 561 | 547 | 1,066 |
| Translation (gain) loss | (21,735) | 20,159 | (5,399) |
| Increase in other assets | (4,288) | (12,302) | (8,073) |
| Decrease (increase) in inventories | (2,597) | (1,093) | 5,591 |
| Decrease (increase) in accounts receivable | 4,360 | (117) | 9,888 |
| Increase (decrease) in accounts payable, accrued expenses and other | 1,717 | 20,712 | (1,929) |
| Investments made in trading securities | (11,638) | 0 | 0 |
| Proceeds from sale of trading securities | 10,949 | 1,760 | 2,417 |
| Gain from repurchase of debentures | (5,823) | 0 | 0 |
| Dividends received from affiliates | 978 | 938 | 1,357 |
| Net cash provided by (used in) operating activities of continuing operations | (50,771) | (22,780) | 2,007 |
| Cash flows from investing activities: | | | |
| Deposits and notes receivable collected | 21,987 | 10,500 | 14,484 |
| Increase in severance fund | (507) | (457) | 135 |
| Deposits and notes receivable granted | 0 | (17,792) | (384) |
| Purchase and improvements of fixed assets | (6,628) | (6,567) | (44,324) |
| Investments made in available for sale shares | 0 | (3,836) | (19,314) |
| Proceeds from sale of available for sale shares | 312 | 31,398 | 42,512 |
| Acquisition of ADPO and Agro, net of cash (1) | 0 | (62,304) | 0 |
| Acquisition of ACE, net of cash | 1,692 | 0 | 0 |
| Investments made in affiliates and others | 0 | (4,049) | (1,906) |
| Proceeds from disposal of investments: | | | |
| Affiliate and others | 0 | 2,059 | 918 |
| Proceeds from sale of fixed assets | 2,163 | 463 | 869 |
| Net cash provided by (used in) investing activities of continuing operations | 19,019 | (50,585) | (7,010) |

(1) Assets and liabilities purchased in acquisitions of ADPO and Agro - see Note 3

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

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

| | Fiscal Year Ended December 31, | | |
|---|--------------------------------|------------|-----------|
| | 2011 | 2010 | 2009 |
| | (U.S. Dollars in thousands) | | |
| Cash flows from financing activities: | | | |
| Proceeds from notes and loans payable issued | \$21 | \$114,668 | \$31,633 |
| Notes and loans payable repaid | (71,222) | (21,014) | (17,050) |
| Debentures repaid and shares repurchased (mainly debentures) | (28,330) | (2,280) | (11,681) |
| Debentures issued | 0 | 45,009 | 0 |
| Distribution to noncontrolling interests | 0 | 0 | (1,404) |
| Dividends paid | (838) | (1,399) | 0 |
| Acquisition of noncontrolling interests | 0 | (476) | 0 |
| Net cash provided by (used in) financing activities of continuing operations | (100,369) | 134,508 | 1,498 |
| Effect of exchange rate changes on cash and cash equivalents of continuing operations | (6,825) | 4,674 | 6,271 |
| Cash flows from discontinued operations: | | | |
| Cash provided by (used in) operating activities of discontinued operations | (18,124) | 49,168 | 0 |
| Cash provided by (used in) investing activities of discontinued operations | 174,085 | (350,497) | 0 |
| Cash provided by (used in) financing activities of discontinued operations | (3,973) | 204,439 | 0 |
| Effect of exchange rate changes on cash and cash equivalents of discontinued operations | (901) | 1,781 | 0 |
| Net cash provided by (used in) discontinued operations | 151,087 | (95,109) | 0 |
| Net increase (decrease) in cash and cash equivalents | 12,141 | (29,292) | 2,766 |
| Cash and cash equivalents at beginning of year | 42,192 | 71,484 | 68,718 |
| Cash and cash equivalents at end of the year | 54,333 | 42,192 | 71,484 |
| Less - cash and cash equivalents of discontinued operations at end of the year | 0 | 8,851 | 0 |
| Cash and cash equivalents of continuing operations at end of the year | \$54,333 | \$33,341 | \$71,484 |
| Supplemental Disclosure of Cash Flow Information: | | | |
| Interest paid | 40,907 | 26,543 | 28,425 |
| Income taxes paid | \$6,857 | \$30 | \$30 |
| Non-cash activities: | | | |
| Accounts payable in respect of fixed assets | \$3,691 | \$3,082 | \$0 |
| Acquisition of noncontrolling interests | 594 | 0 | 0 |

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

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

(U.S. Dollars in thousands)

Equity attributable to Ampal-American Israel Corporation
shareholders
Class A stock

| | Number of shares* | Amount | Additional paid in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Treasury stock | Non-controlling interests | Total equity |
|--|-------------------------|--------|----------------------------------|------------------------|---|-------------------|------------------------------|-----------------|
| BALANCE AT JANUARY 1, 2011 | 63,277 | 63,277 | 182,924 | (32,316) | 103 | (28,763) | (6,677) | 178,548 |
| CHANGES DURING 2011: | | | | | | | | |
| Net loss for the year | | | | (95,321) | | | (21,723) | (117,044) |
| Unrealized loss from marketable securities | | | | | (22) | | | (22) |
| Foreign currency translation adjustments | | | | | (11,862) | | (32) | (11,894) |
| Total comprehensive loss | | | | | | | | (128,960) |
| Acquisition of noncontrolling interests | | | (594) | | | | 594 | -- |
| Dividends paid | | | | | | | (838) | (838) |
| Share based compensation expense | | | 612 | | | | | 612 |
| BALANCE AT DECEMBER 31, 2011 | 63,277 | 63,277 | 182,942 | (127,637) | (11,781) | (28,763) | (28,676) | 49,362 |

*In thousands

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

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

(U.S. Dollars in thousands)

Equity attributable to Ampal-American Israel
Corporation shareholders
Class A stock

| | Number of shares* | Amount | Additional paid in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Non-controlling interests | Total equity |
|--|-------------------------|--------|----------------------------------|----------------------|---|-------------------|------------------------------|-----------------|
| BALANCE AT JANUARY 1, 2010 | 63,277 | 63,277 | 184,287 | 12,426 | (14,598) | (28,763) | (75) | 216,554 |
| CHANGES DURING 2010: | | | | | | | | |
| Net loss for the year | | | | (44,742) | | | (6,607) | (51,349) |
| Unrealized loss from marketable securities | | | | | 35 | | | 35 |
| Foreign currency translation adjustments | | | | | 14,666 | | 5 | 14,671 |
| Total comprehensive loss | | | | | | | | (36,643) |
| Acquisition of noncontrolling interests | | | (870) | | | | | (870) |
| Dividends paid | | | (1,337) | | | | | (1,337) |
| Share based compensation expense | | | 844 | | | | | 844 |
| BALANCE AT DECEMBER 31, 2010 | 63,277 | 63,277 | 182,924 | (32,316) | 103 | (28,763) | (6,677) | 178,548 |

*In thousands

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

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

(U.S. Dollars in thousands)

Equity attributable to Ampal-American Israel Corporation
shareholders
Class A stock

| | Number of shares* | Amount | Additional paid in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Non-controlling interests | Total equity |
|--|-------------------------|--------|----------------------------------|----------------------|---|-------------------|------------------------------|-----------------|
| BALANCE AT JANUARY 1, 2009 | 63,277 | 63,277 | 184,424 | 31,907 | (17,858) | (28,500 | 869 | 234,119 |
| CHANGES DURING 2009: | | | | | | | | |
| Net Loss for the year | | | | (19,481) | | | (425) | (19,906) |
| Unrealized gain from marketable securities | | | | | 880 | | | 880 |
| Foreign currency translation adjustments | | | | | 2,380 | | (519) | 1,861 |
| Total comprehensive loss | | | | | | | | (17,165) |
| Dividend paid | | | (858) | | | | | (858) |
| Purchase of 292,103 shares | | | | | | (263 | | (263) |
| Share based compensation expense | | | 721 | | | | | 721 |
| BALANCE AT DECEMBER 31, 2009 | 63,277 | 63,277 | 184,287 | 12,426 | (14,598) | (28,763) | (75) | 216,554 |

*In thousands

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

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

Note 1 – Summary of Significant Accounting Policies

(a) General

- (1) Ampal-American Israel Corporation is a New York corporation founded in 1942. The Company primarily acquires interests in businesses located in the State of Israel or that are Israel-related.
- (2) As used in these financial statements, the term “the Company” refers to Ampal-American Israel Corporation (“Ampal”) and its consolidated subsidiaries. See Note 18 for segment information.
- (3) The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).
- (4) The preparation of financial statements in conformity with U.S. GAAP 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.

On December 19, 2011, the Company announced that due to the current political and security situation in Egypt, including the repeated interruptions of the gas supply to East Mediterranean Gas Company, S.A.E., an Egyptian joint stock company (“EMG”), the Company requested that the Trustees of its Series A, Series B and Series C Debentures, which are listed on the Tel Aviv Stock Exchange (the “Debentures”), convene a meeting of the holders of the Debentures (the “Holders”) on January 1, 2012 to appoint a Holders’ committee to discuss a proposal to postpone of the principal payments due on the Debentures for 24 months.

On January 1, 2012, the Company held a meeting with the Holders, where the Company proposed to restructure (the “Proposal”) the Debentures to postpone all principal payments due thereunder for the next two years, while continuing to make the interest payments as scheduled. Under the Proposal, the principal amount of the Debentures would not be reduced, and after the two-year period the principal payment schedule for the Debentures would return to the original terms. The Company request that the Holders appoint a delegation (a committee of representatives) of Holders to discuss the Proposal.

On January 18, 2012, the Company announced that two separate Holders’ committees had been formed: one to represent the Series A and Series C Debenture holders and the other to represent the Series B Debenture holders (the “B Holders”).

On January 22, 2012, the Company announced that its Board of Directors decided to postpone making the principal payments currently coming due on the Debentures, but to continue making interest payments as scheduled. In accordance with the decision, on January 31, 2012, the Company made an interest payment on the Series B Debentures (the “Series B Debentures”) to the B Holders on the scheduled payment date, and the Company did not request the return of the Company's funds held by the trustee for the B Holders.

On February 20, 2012, a meeting of the B Holders was held at the request of the B Holders' trustee and on March 6, 2012, the B Holders voted (the “Series B Resolution”) to accelerate and set to immediate repayment the entire outstanding amounts under the Series B Debentures. The Series B Resolution provided that the acceleration would be effective two weeks after March 6, 2012, unless an additional two-week extension was granted by the committee,

formed by the B Holders (the "Series B Committee") to represent the B Holders. Such extension was granted on March 20, 2012. Additional postponements of the effective date of the acceleration of the Series B Debentures are possible subject to the approval of the majority of the B Holders. Accordingly, the Debentures have been classified as short-term obligations. As of March 12, 2012, due to the acceleration, the total amount outstanding (including interest) under the Series B Debentures (excluding the Series B Debentures held by the Company) is NIS 527,024,735 (approximately \$138.4 million).

Additionally, the B Holders voted to authorize the commencement of legal actions and other measures, at the discretion of Clal Finance Trusts 2007 Ltd., the trustee for the B Holders, and/or at the recommendation of the Series B Committee, to collect the principal payment which was due on January 31, 2012 and which the Company did not make. The B Holders also voted to empower the Series B Committee to continue negotiations with the Company to settle payments to the B Holders and/or to restructure the Series B Debentures, to protect the rights of the B Holders and to receive all required information from the Company regarding its financial status and its ability to meet its obligations.

On March 5, 2012, the Company announced that its Board of Directors decided that the Company intended to make an interest payment which was due to be paid to the Series C Debenture holders on March 7, 2012 (the "Series C Interest Payment"), if the Series B Resolution was not approved. The Board further decided that if the Series B Resolution was approved (as it was approved on March 6, 2012, as described above), the Series C Interest Payment would be postponed until it was clear to the Company whether the Series B Resolution to accelerate the Company's entire debt owed to the B Holders and set it to immediate payment would be enforced.

On March 26, 2012, the Company announced that the Series C Interest Payment will be paid on March 29, 2012 by transferring funds that are deposited with the trustee for the Series C debenture holders, in favor of the Series C debenture holders, and in accordance with the resolution of the Series C debenture holders of March 22, 2012.

A meeting of the Series A and Series C Debenture holders is scheduled to be held on April 3, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda is a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures.

Presently, the Company does not have sufficient cash and other resources to service its debt and finance its ongoing operations. This fact raises substantial doubts as to the Company's ability to continue as a going concern if the Company does not reach agreement with the debenture holders, obtain additional financing or otherwise raise capital through the sale of assets or otherwise. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Management is in the process of negotiations with the Holders' committees to restructure the debt to its Series A, Series B and Series C Debenture Holders, but there is no assurance that the negotiations will succeed.

These consolidated financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to restructure its debt or its ability to obtain additional financing as may be required.

(b) Consolidation

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

Once a controlling interest has been acquired, any subsequent acquisitions or dispositions of noncontrolling interests that do not result in a change of control are accounted for as equity transactions. Assets and liabilities acquired are measured at fair value only once, at the original acquisition date, i.e., the date on which the acquirer gained control.

(c) Translation of Financial Statements in Foreign Currencies

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

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

(d) Foreign Exchange Derivative Contracts

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

On May 15, 2008, the Company entered into a SWAP agreement with respect to its Series B debentures, in the principal amount of \$165.7 million, due 2016. As a result of this agreement the Company is currently paying an effective interest rate of LIBOR plus 5.12% on NIS 150 million (approximately \$43.9 million) of these debentures, as compared to the original 6.6% fixed rate which is linked to the Israeli consumer price index.

On April 1, 2009, the Company signed a interest rate swap contract in order to convert some of the Company's LIBOR interest rate denominated debt in the amount of \$43.7 million into fixed interest rate debt.

(e) Investments

(i) Investments in Affiliates

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

(ii) Cost Basis Investments

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

(iii) Investments in Marketable Securities

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

(f) Inventories

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

(g) Risk Factors and Concentrations

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

The Company evaluates its allowance for doubtful accounts by analyzing specifically identified receivables whose collection is doubtful.

(h) Fixed assets

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

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

Annual rates of depreciation are as follows:

| | % |
|---------|---|
| Vessels | 7 |

| | |
|-----------------------|------|
| | 10 - |
| Trailers | 33.3 |
| Land | -- |
| Real estate | 6.5 |
| | 4 - |
| Storage tankers | 10 |
| Vehicles | 15 |
| Equipment | 4-33 |
| Leasehold improvement | * |

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

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

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

(v) Long-lived assets, to be held and used by the Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss is recognized, and the assets are written down to their estimated fair values.

(i) Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment on an annual basis at the end of each year and between annual tests in certain circumstances. The performance of the goodwill impairment test involves a two-step process. The first step involves comparing the fair value of the Company's reporting units to their carrying values, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value. See Note 7—"Goodwill" for additional information.

In December 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-28 for Intangibles - Goodwill and Other (Topic 350): "Intangibles - Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." ASU 2010-28 impacted reporting units with zero or negative carrying amounts and required an additional test to be performed to determine whether goodwill has been impaired and to calculate the amount of that impairment.

(j) Income Taxes

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

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

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

(k) Revenue Recognition

In certain circumstances, sales under short-term fixed-price production type contracts or sale of products are accounted for in accordance with SAB No. 104 "Revenue Recognition in Financial Statements" ("SAB 104"), and recognized when all the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller's price to the buyer is fixed or determinable, no further obligation exists and collectability is reasonably assured.

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

Revenue for services is recognized as follows:

- Revenues arising from the provision of marine transport services proportionally over the period of the marine transport services. As to voyages uncompleted in which a loss is expected, a full provision is made in the amount of the expected loss.
- Revenues from chemical brokerage commissions are recognized when the right to receive them is created.
- Rental income is recorded over the rental period. Revenues from services provided to tenants and country-club subscribers are recognized ratably over the contractual period or as services are performed.
- Income from other services is recognized over the period during which those services are performed.

(l) Cash and Cash Equivalents

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

Cash equal to \$1 million has been placed as a compensating balance for various loans provided to the Company.

(m) Earning (loss) per share (EPS)

In 2011, 2010 and 2009, all outstanding stock options have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for these periods presented.

Basic and diluted loss per share ("LPS") are computed by dividing net loss by the weighted average number of shares of Common Stock outstanding for each period. Shares Common Stock underlying outstanding options of the Company were not included in the computation of diluted LPS because of the anti-dilutive effect of doing so.

(n) Comprehensive Income

The Company's components of comprehensive income (loss) are net income (losses), net unrealized gains or losses on available for sale investments, foreign currency translation adjustments, which are presented net of income taxes.

(o) Employee Stock Based Compensation

The Company accounts for stock based compensation to employees in accordance with "Share-Based Payment" accounting standard. The Company measures and recognizes compensation expense for share-based awards based on estimated fair values on the date of grant using the Black-Scholes option-pricing model. This option pricing model requires that we make several estimates, including the option's expected life and the price volatility of the underlying stock. The Company recognizes the estimated fair value of option-based awards, net of estimated forfeitures, as stock-based compensation costs using the graded vesting attribution method.

(p) Treasury stock

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

The Company records treasury shares repurchased at cost.

(q) Discontinued Operations

On March 3, 2011, Merhav-Ampal Group Ltd (former known as Merhav Ampal Energy Ltd.) ("MAG") completed its sale of all of the outstanding shares of 012 Smile Telecom Ltd., a wholly owned subsidiary of MAG ("012 Smile"), to Partner Communications Company Ltd. ("Partner"), in accordance with the Share Purchase Agreement between MAG, 012 Smile and Partner, signed on October 13, 2010 (the "012 Sale"). Accordingly, 012 Smile has been reported as discontinued operations since December 31, 2010.

All the indirect interest expenses were recorded as a continuing operation.

(i) Classification

We classified certain operations as discontinued using U.S. GAAP, as the associated operations and cash flows will be eliminated from our ongoing operations and we will not have any significant continuing involvement in their operations after the respective sale transactions. For all periods presented, all of the operating results for these operations were removed from continuing operations and are presented separately as discontinued operations, net of tax. The Notes to the Consolidated Financial Statements were adjusted to exclude discontinued operations unless otherwise noted.

(ii) Impairment Test

An impairment test on an asset group to be discontinued, held-for-sale, or otherwise disposed of is performed upon occurrence of a triggering event or when certain criteria are met (e.g., the asset can be disposed of within twelve months, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer). Long-lived assets held-for-sale are recorded at the lower of their carrying amount or estimated fair value less cost to sell. If the carrying value of the assets held-for-sale exceeds the fair value less cost to sell, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets less cost to sell.

(iii) Revenue Recognition from Telecommunications

Revenue derived from usage of 012 Smile's networks, including business, residential and carrier long distance traffic, data and Internet traffic services revenues, is recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed or product delivered and collectability of the resulting receivable is reasonably assured.

For traditional voice services, revenue is earned based on the number of minutes of a call and is recorded upon completion of a call. Revenue for a period is calculated based on information received through 012 Smile's network switches. Revenue on prepaid calling cards is recognized as service is provided until expiration when all unused minutes, which are no longer available to customers, are recognized as revenue.

For broadband and data services, revenue is earned on a fixed monthly fee basis for the provision of services. Broadband and data services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths, and also web and server hosting. These fees are recognized as services are provided. 012 Smile records payments received in advance for services and services to be provided under contractual agreements, such as Internet broadband, as deferred revenue until such related services are provided.

012 Smile also offers value-added services including web faxing services, anti-spam and anti-virus protection. Generally, these enhanced features and data applications generate additional service revenues through monthly subscription fees or increased usage through utilization of the features and applications. Revenues from enhanced features and optional services are recognized when earned.

Revenues from sales of equipment such as routers, that are not contingent upon the delivery of additional products or services are recognized when products are delivered to and accepted by customers. Pursuant to Accounting Standards Codification ("ASC") 605-25, "Multiple-Element Arrangements", the Company determined that the sale of equipment with accompanying services constitutes a revenue arrangement with multiple deliverables. Accordingly, consideration received for equipment, that is not contingent upon the delivery of additional items (such as the services), is recognized as equipment revenue, based on their relative fair value, upon the delivery of the equipment to the subscriber and when all other revenue recognition criteria are met. Consideration for services is recognized as services revenue when earned.

012 Smile reports any taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between 012 Smile and a customer on a net basis (excluded from revenues).

(r) Classification

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

(s) Recently Issued Accounting Pronouncements

ASU 2011-12 – update to ASU 2011-05

In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12") which amended the comprehensive income presentation guidance. The adjustments in this Update supersede changes to those paragraphs in Update No. 2011-05 ("ASU 2011-05") that pertain to how, when and where reclassification adjustments are presented. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. The amendments are effective for public entities for annual and interim reporting periods beginning after December 15, 2011. The Company will adopt this amendment on January 1, 2012. The adoption will change the way the Company presents comprehensive income as under current guidance, the Company presents comprehensive income within the statement of changes in equity in annual periods, and within the footnotes to the financial statements in interim periods.

ASU 2011-11

In December 2011, the FASB issued ASU No. 2011-11 ("ASU 2011-11") which amended the disclosure information requirements regarding offsetting (netting) assets and liabilities. The amendment enhances disclosures regarding financial instruments and derivative instruments that are either (1) offset in accordance with GAAP or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The

amendments in ASU 2011-11 are effective for annual and interim reporting periods beginning after January 1, 2013. According to ASU 2011-11 the entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect ASU 2011-11, which relates to disclosure matters only, to have an impact on the Company's consolidated financial position, results of operations or cash flows.

ASU 2011-08

In September 2011, the FASB issued ASU No. 2011-08 ("ASU 2011-08") which amended the guidance for goodwill impairment testing. The amendment provides entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, further testing of goodwill for impairment would not be required. The amendment also removes the carry forward option of the reporting unit fair value from one year to the next. The amendment is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted.

ASU 2011-05

In June 2011, the FASB issued ASU No. 2011-05 ("ASU 2011-05") which amended the comprehensive income presentation guidance. The amendment requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The guidance is effective for interim and annual periods beginning after December 15, 2011.

ASU 2011-04

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") for Fair Value Measurements and Disclosures (Topic 820). The amendment clarifies the existing guidance and adds new disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the potential impact of ASU 2011-04 on its financial statements.

Note 2 – Investments

a. Non-current investments

The balance of investments as of December 31, 2011 and 2010, are composed of the following items:

| | As of December 31, | |
|--------------------------|-----------------------------|------------|
| | 2011 | 2010 |
| | (U.S. Dollars in thousands) | |
| EMG * | \$ 260,400 | \$ 361,323 |
| Investment in Affiliates | 9,040 | 9,771 |
| Other Investments | 431 | 657 |
| | \$ 269,871 | \$ 371,751 |

* The Company's Financial Statements reflect a 16.8% interest in shares of EMG, with 8.2% held directly and 8.6% held through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (of which Ampal owns 50% and being consolidated due to effective control granted through the partnership's agreement).

The Company evaluates the carrying value amount of its interest in EMG annually in connection with the preparation of its financial statements. In light of the recent developments in Egypt, the Company obtained updated interim valuations from an independent third-party valuation firm for the years ended December 31, 2011 and 2010. These periodic independent valuations obtained by the Company to assist in its preparation of financial statements customarily indicate a range of values depending on underlying assumptions. The valuations are based on the discounted cash flow (DCF) method. Due to current uncertainties, the valuation firm used a wide range of scenarios, including deferent assumptions regarding the profitability and discount rates of EMG. An adverse change in any of these assumptions, such as the price, quantity, delivery dates and reliability of the gas and discount rates, might result in additional reduction in the value of EMG.

The valuation ranges determined by the independent valuation firm for the following periods and the carrying amount of Ampal's investment in EMG were:

At December 31, 2010, the valuation range was between \$2,930 million and \$3,280 million and the amount on which the carrying amount of Ampal's investment in EMG on a cost basis was based on a value of \$2,151 million.

At December 31, 2011, the valuation range was between \$1,584 million and \$1,856 million and the amount on which the carrying amount of Ampal's investment in EMG after impairment was based on a value of \$1,550 million.

The Company recorded in the year ended December 31, 2011 charges of \$100.9 million and decreased deferred income taxes in the amount of \$14.1 million in connection with its investment in EMG.

The principal factors affecting valuation are the price, quantity, delivery dates and reliability of the gas, as well as the discount rate. In determining the carrying value as of December 31, 2011 and in light of the current events in Egypt, the Company addressed the risk in a combined approach through the discount rate and reduced cash flow scenarios. The Company considered possible scenarios including reductions from the contracted amounts in the quantity of gas to be delivered, reductions in the gross margins under EMG's gas purchase and sale agreements, future interruptions in gas supply due to possible future attacks on the Egyptian gas infrastructure in Sinai and applied an average discount rate of 11.5% (based on the rate of 8% for the international CAPM and the impact of a project execution risk premium in the rate of 3.5%). The impact of 0.5% in the average discount rate will result in a change of \$75 million in EMG's valuation. In the Company's management's judgment these assumptions and the adjustments based on these assumptions are reasonable. Any change in the assumptions or adverse change in any of these factors could result in a reduction of EMG's expected cash flow, in additional material reduction in the value of EMG and additional reduction in the carrying value amount of the asset on the Company's balance sheet. The Company will continue to evaluate developments with regard to EMG and will make determinations each fiscal period as to whether an impairment charge is appropriate.

b. Marketable securities

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

(a) Trading Securities

The cost and market values of trading securities at December 31, 2011 and 2010 are as follows:

| | | Cost | Unrealized Gains (U.S. Dollars in thousands) | Unrealized (Loss) | Market Value |
|----------------|------|--------|--|----------------------|-----------------|
| Debtentures | 2011 | \$ 55 | \$ 0 | \$ 0 | \$ 55 |
| | | 55 | \$ 0 | 0 | 55 |
| Trading stocks | 2010 | \$ 17 | \$ 10 | \$ (2) | \$ 25 |
| Debtentures | 2010 | \$ 275 | \$ 81 | \$ -- | \$ 356 |
| | | 292 | 91 | (2) | 381 |

(b) Available-For-Sale Securities

| | | Cost | Unrealized Gains (U.S. Dollars in thousands) | Unrealized (Loss) | Market Value |
|-------------|------|--------|--|----------------------|-----------------|
| Debtentures | 2011 | \$ 133 | \$ 0 | \$ (11) | \$ 122 |
| | | 133 | 0 | (11) | 122 |
| Debtentures | 2010 | \$ 463 | \$ 46 | \$ 0 | \$ 509 |
| | | 463 | 46 | \$ 0 | 509 |

Note 3 – Acquisitions and Dispositions

a) From 2009 to 2011, the Company made the following investments:

1. Option Agreement for Sugarcane Ethanol Project in Colombia

As summarized in the Company's previously filed annual and periodic reports, on December 31, 2009, Ampal signed an option exercise agreement (the "Exercise Agreement") with Merhav (M.N.F.) Ltd. ("Merhav") pursuant to which it exercised, subject to certain conditions, its option (the "Option") to convert Ampal's existing loan to Merhav (consisting of \$20 million of principal plus accrued interest) (the "Loan") into a 25% equity interest in the sugarcane ethanol production project in Colombia (the "Project") being developed by Merhav. The Loan is secured by Merhav's pledge of its shares of Class A Stock of Ampal and guaranteed by Mr. Yosef A. Maiman's personal guaranty.

Pursuant to the Exercise Agreement, the conversion of the Loan into a 25% equity interest in the Project will take the form of the issuance to Ampal of 25% of all of the issued and outstanding equity interests in Merhav Renewable Energies Limited, a Cyprus corporation and subsidiary of Merhav ("Merhav Energies"). The purchase price for the 25% equity stake in Merhav Energies, to be paid at closing, is the outstanding balance

of the Note on December 31, 2009, or approximately \$22.3 million. The closing of the purchase of the 25% equity stake and the conversion of the Loan is subject to, among other things, (i) the initial disbursement of (or other evidence of) long-term debt financing for the Project obtained from a financing bank or any other unaffiliated third party lender (the date such financing is obtained, the “Qualified Financing Date”), (ii) the payment in full of all outstanding amounts due and payable under the Note, and (iii) the delivery at closing of the Shareholders’ Agreement (as defined below) by Merhav and Ampal, setting forth certain agreements relating to the governance of Merhav Energies. Additionally, Merhav and Ampal have agreed that, under certain circumstances, each will arrange for loans to Merhav Energies from time to time through third parties, directly or indirectly, for up to \$15 million. The Exercise Agreement contains other customary closing conditions, as well as customary representations and warranties.

The closing was to occur on the Qualified Financing Date or as soon as practicable thereafter, but no later than December 31, 2010 (the "Termination Date"). Since the Qualified Financing Date did not occur prior to December 31, 2010, on December 31, 2010, the parties amended the Exercise Agreement such that the Termination Date and the maturity date of the Note was extended to December 31, 2011. Additionally on December 31, 2010, all the rights and obligations of Ampal in the Project were assigned to MAG. Since the Qualified Financing Date was not likely occur prior to December 31, 2011, on November 12, 2011, the Special Committee of the Board of Directors of Ampal approved the amendment of the Exercise Agreement such that the Termination Date and the maturity date of the Note would be extended to December 31, 2012 and on December 8, 2011, the parties signed such amendment.

As stated above, as a condition to closing Ampal's purchase of a 25% equity stake in Merhav Energies, Merhav, Ampal and Merhav Energies will enter into a Shareholders' Agreement (the "Shareholders' Agreement"), to provide for, among other things, (i) restrictions on the transfer of shares of Merhav Energies, (ii) a right of first refusal on transfers of shares of Merhav Energies, (iii) tag-along and drag-along rights on the transfer of shares of Merhav Energies, (iv) preemptive rights on the issuance of new shares of capital stock (or other equity interest) by Merhav Energies, subject to the anti-dilution rights of Ampal, and (v) the right of Ampal to designate 25% of the directors of Merhav Energies. In addition to preemptive rights under the Shareholders' Agreement, Ampal has been granted anti-dilution protection, which may result in the issuance of additional shares of Merhav Energies to Ampal, in the event that, prior to end of the 180-day period following the commencement of the Project's operations, Merhav sells, or Merhav Energies issues, shares of Merhav Energies at a per share price that is less than the per share price paid by Ampal under the Exercise Agreement.

Merhav is a multinational corporation with interests in a range of sectors, including energy, infrastructure projects and agriculture. Merhav is a controlling shareholder of Ampal and is wholly owned by Mr. Yosef A. Maiman, the President, CEO and member of the controlling shareholder group of Ampal. Because of the foregoing relationship, a special committee of the Board of Directors of Ampal composed of Ampal's independent directors negotiated and approved the transaction. Houlihan Lokey Financial Advisors, Inc., which has been retained as financial advisor to the special committee, advised the special committee on this transaction.

2. Global Wind Energy ("GWE")

Ampal invested in GWE \$0.6 million, \$1.5 million and \$0.6 million in 2011, 2010 and 2009, respectively.

3. Bay Heart Ltd. ("Bay Heart")

Ampal loaned to Bay Heart \$0.9 million and \$1.2 million in 2010 and 2009, respectively.

4. F.C.C. SHIPPING Ltd ("FCC")

In March 2009 Gadot purchased a 39% stake in the shipping agency FCC for the amount of \$0.4 million. FCC was nominated as the exclusive agent in Israel of Hanjin Shipping, a Korean shipping company.

5. Merhav Agro Ltd.

On July 1, 2010, Gadot, through its subsidiary, completed the acquisition of all of the issued share capital of Merhav Agro Ltd. ("Agro"). Agro is a supplier of plant protection products, plant growth regulators and seeds in Israel.

Upon closing, Gadot paid, as consideration, NIS 108 million (approximately \$27.8 million). To fund the purchase price, Gadot obtained a long-term credit facility in the aggregate principal amount of NIS 108 million (approximately \$27.8 million) from Israel Discount Bank Ltd.

The acquisition of Agro was accounted for as a combination of entities under common control, which is similar to the pooling of interests method of accounting for business combinations. Accordingly, the consolidated financial statements give retrospective effect to this transaction.

FASB ASC 805, Business Combinations, excludes transfers of net assets or exchanges of equity interests between entities under common control. ASC 805 also states that transfers of net assets or exchanges of equity interests between entities under common control should be accounted for similar to the pooling-of-interests method (as-if pooling-of-interests) in that the entity that receives the net assets or the equity interests initially recognizes the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. Because Gadot and Agro were under common control at the time of the acquisition, the transfer of assets and liabilities of Agro was accounted for at historical cost in a manner similar to a pooling-of-interests. For financial accounting purposes, the acquisition was viewed as a change in reporting entity and, as a result, required reclassification of the Company's financial statements for all periods subsequent to October 18, 2008, the date on which Agro was acquired. Accordingly, the Company's consolidated balance sheet as of December 31, 2009, the consolidated statements of operations for the year ended December 31, 2009 and the statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2009 were reclassified to include Agro. Agro's financial data has been included in the Chemicals segment.

In as-if pooling-of-interests accounting, financial statements of the previously separate companies for periods under common control prior to the combination are reclassified on a combined basis to furnish comparative information. At December 31, 2009, the Company added net liabilities of \$5.4 million. For the year ended December 31, 2009, the Company added revenue and net profit of \$20.7 million and \$1.3 million, respectively. For the year ended December 31, 2010, the Company added revenue and net income of \$12.7 million and \$2.1 million, respectively, to the pre-acquisition period.

6.

ADPO GHENT N.V.

On August 20, 2010, Gadot, through its subsidiary, acquired 100% of the issued and outstanding share capital of ADPO Ghent N.V. ("ADPO") for a purchase price of €30 million (approximately \$38.5 million). Gadot's subsidiary obtained a long-term credit facility from Israel Discount Bank Ltd. for the financing of the purchase price.

ADPO owns and operates a chemical storage terminal in Ghent, Belgium over an area of 25 hectares of land, with a storage capacity of approximately 100,000 cubic meters. The Company believes that the acquisition will allow Gadot to expand its global business and maximize its ability to deliver products and services worldwide.

The following table summarizes the consideration paid for ADPO and the fair value of the assets acquired and liabilities assumed at the acquisition date (in thousands):

| | |
|-------------------------------|-----------|
| Current assets | \$ 8,826 |
| Property, plant and equipment | 47,125 |
| Goodwill | 221 |
| Current liabilities | (4,890) |
| Deferred income taxes | (4,858) |
| Other long-term liabilities | (8,129) |
| Total consideration paid | \$ 38,295 |

Goodwill consists of assembled workforce, as well as synergistic opportunities created by combining the operations of ADPO and the other subsidiaries of the Company. All of the goodwill was assigned to the Company's Chemicals segment.

The Company expensed a total of \$0.7 million of acquisition-related costs during the year ended December 31, 2010, which was recorded as general and administrative expenses in the consolidated statements of operations. None of the goodwill recognized is expected to be deductible for income tax purposes.

7.

ACE

On November 17, 2011, Gadot, through its subsidiary, completed the purchase of 65% of the outstanding share capital of Agrinet Central Europe Ltd ("ACE"), an Israeli company which operates mainly in Eastern Europe in the agriculture field, for a purchase price of \$2.67 million. Pursuant to the purchase agreement, Gadot was granted with a call option and the seller was granted with a put option for the remaining shares of ACE, and Gadot granted the seller an irrevocable option to choose one of ACE's real estate properties in exchange for consideration of \$70,000 and certain priority in the distribution of dividends by Gadot, as described in the agreement. Part of the purchase price was financed by Gadot's own resources and the remainder by taking a long-term loan to a third party.

b) From 2009 to 2011, Ampal made the following dispositions:

1. The Company received proceeds in the total amount of \$0.2 million, \$0.1 million and \$0.3 million from the sales of certain investments by FIMI Opportunity Fund L.P. in 2011, 2010 and 2009, respectively.
2. The Company received \$0.5 million in 2009, from the sale of its 50% holdings of Country Club Hod Hasharon Sport Center.
3. The Company received \$171.6 million and \$8.3 million in 2011 and 2010, respectively, from the sale of all of the outstanding shares of 012 Smile (see Note 16).

Note 4 – Derivatives and Other Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations, including financial, market, political, and economic risks. The following discussion provides information regarding the Company's exposure to the risks of interest rates and foreign currency exchange rates.

The Company's derivative activities are subject to management's discretion.

The interest rate and foreign exchange contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and in order to cover underlying exposures. On May 15, 2009, the Company entered into a swap contract to convert some of its New Israeli Shekel ("NIS") denominated debt in the amount of NIS 150 million (\$43.9 million) into U.S. Dollar denominated debt and to convert Israeli interest rates into LIBOR interest rates.

On April 1, 2009, the Company signed an interest rate swap contract in order to convert some of the company's LIBOR interest rate denominated debt in the amount of \$43.7 million into fixed interest rate debt, for a contractual term of 10 years.

We use foreign currency forward contracts to mitigate fluctuations in foreign currency exchange rates due to variations in payment or receipt of currencies other than the Company's functional currency. We use contracts to purchase U.S. Dollars and sell Euros, contracts to purchase Euros and sell U.S. Dollars and contracts to purchase U.S. Dollars and sell New Israeli Shekels.

We report the fair value of the derivatives on our balance sheet. The derivatives do not qualify for hedge accounting. Changes in fair value are recognized in earnings in the period of change.

The following summarizes the gross fair market value of all derivative instruments and their location in our consolidated balance sheet, and indicates what instruments are in an asset or liability position.

Asset Derivatives

| Derivative Instrument | Location | (U.S. Dollars in thousands) | |
|-----------------------|----------------------|-----------------------------|-------------------|
| | | December 31, 2011 | December 31, 2010 |
| SWAP contracts | Other current assets | 2,059 | 5,552 |

Liability Derivatives

| | | (U.S. Dollars in thousands) | |
|-------------------------|---|-----------------------------|--------------|
| | | December 31, | December 31, |
| Derivative Instrument | Location | 2011 | 2010 |
| SWAP contracts | Other current liabilities | 1,668 | 0 |
| Exchange rate contracts | Accounts payable, accrued expenses and others | 79 | 0 |

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Statements of Operations

| | | (U.S. Dollars in thousands) | | |
|------------------------------|-------------------------|--------------------------------|----------|-------|
| | | Fiscal Year Ended December 31, | | |
| Derivative Instrument | Location | 2011 | 2010 | 2009 |
| SWAP contracts | Translation gain (loss) | (3,445) | (1,562) | 376 |
| Interest rate SWAP contracts | Interest gain (loss) | (1,716) | 3,991 | 5,731 |
| Exchange rate contracts | Translation gain | 400 | 0 | 728 |

Note 5 – Fair value measurement

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

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010 consisted of the following (in thousands):

Fair Value Measurements at:

| | December 31, 2011 | | | December 31, 2010 | | |
|---------------------------------|-------------------|----------|----------|-------------------|------------|----------|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Trading securities | | | | | | |
| * \$55 | \$ 0 | \$ 55 | \$ 381 | \$ 0 | \$ 381 | |
| Available for sale securities * | 122 | 0 | 122 | 509 | 0 | 509 |
| Derivative assets | | | | | | |
| ** 0 | 2,059 | 2,059 | 0 | 5,552 | 5,552 | |
| Derivative liabilities ** | 0 | (1,747) | (1,747) | 0 | 0 | 0 |
| Total | \$ 177 | \$ 312 | \$ 489 | \$ 890 | \$ 5,552 | \$ 6,442 |

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

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

** See Note 4.

The fair value of notes and loans payable and deposits payable 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. The fair value of debentures outstanding is determined based market prices. Capital notes in the amount of \$95.9 million that were issued to the limited partners, other than Ampal, in Merhav Ampal Energy Limited Partnership, have no maturity date, bear no interest and are not linked to any index.

Investment in EMG with a carrying amount of \$361.3 million was written down to its fair value of \$260.4 million, resulting in a loss of \$100.9 million, which was included in loss for the period. The carrying value of EMG is based, among other things, on nonpublic information.

The following table presents the carrying amount and fair value of financial assets and liabilities:

| | As of December 31, | | 2010 | |
|--------------------------------------|---|---------------|--------------------|---------------|
| | 2011 Carrying Amount (U.S. Dollars in thousands) | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$54,333 | \$54,333 | \$33,341 | \$33,341 |
| Deposits, notes and loans receivable | 44,789 | 44,789 | 57,391 | 57,391 |
| Investments | 177 | 177 | 890 | 890 |
| | \$99,299 | \$99,299 | \$91,622 | \$91,622 |
| Financial liabilities: | | | | |
| Notes and loans payable | \$437,296 | \$435,739 | \$516,639 | \$543,606 |
| Debentures outstanding | 237,084 | 78,594 | 280,339 | 301,114 |
| | \$674,380 | \$514,333 | \$796,978 | \$844,720 |

Note 6 - Intangible assets

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

| | Weighted average amortization period Years | Original amount December 31, | Amortized balance | |
|--------------------------------------|--|---------------------------------------|-------------------|----------|
| | | 2011 | 2011 | 2010 |
| U.S. Dollars in thousands | | | | |
| | At time of exercise | | | |
| Options to purchase ships | | \$ 4,984 | \$ 0 | \$ 2,990 |
| Ships leasing | 2-4 | 8,872 | 356 | 1,646 |
| Supplier relation | 8-9 | 6,599 | 1,586 | 2,317 |
| Brand name | 2 | 287 | 258 | |
| Licenses Agro | 10 | 4,787 | 3,612 | 4,588 |
| Software | 3-15 | 3,799 | 1,506 | 1,985 |
| Customer relation | 18-19 | 5,481 | 2,875 | 3,537 |
| Total identifiable intangible assets | | 34,810 | 10,193 | 17,063 |

Amortization expenses amounted to approximately \$9,133, \$8,250 and \$6,126 (in thousands) for the years ended December 31, 2011, 2010 and 2009, respectively.

The yearly estimated amortization expense relating to Ampal's amortizable intangible assets existing as of December 31, 2011, for the five years period ending December 31, 2017 is approximately \$10.2 million.

Note 7 – Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are as follows:

(U.S. Dollars in thousands)

| | |
|---|-------------|
| Balance as of January 1, 2010 | \$67,056 |
| Changes during 2010: | |
| Goodwill acquired during the year | \$63,832 |
| Goodwill classified as held for sale assets | \$(66,748) |
| Translation differences | \$ 6,530 |
| Balance as of December 31, 2010 | \$70,670 |
| Changes during 2011: | |
| Goodwill acquired during the year | \$804 |
| Translation differences | \$(4,380) |
| Balance as of December 31, 2011 | \$67,094 |

The Company recorded the goodwill as part of the purchase of Gadot and Gadot's subsidiaries.

Note 8 – Fixed assets

The balance of fixed assets as of December 31, 2011 and 2010 is comprised as follows:

| Cost: | As of December 31, | |
|--|-----------------------------|------------|
| | 2011 | 2010 |
| | (U.S. Dollars in thousands) | |
| Vessels | \$ 47,513 | \$ 44,341 |
| Payments on accounts of Vessels under construction | 71,542 | 66,880 |
| Trailers | 12,284 | 11,853 |
| Land | 12,255 | 10,543 |
| Real estate | 10,021 | 23,057 |
| Tankers | 71,857 | 66,897 |
| Motor vehicles | 1,397 | 748 |
| Equipment | 8,893 | 4,965 |
| Leasehold improvement | 4,318 | 4,281 |
| | 240,080 | 233,565 |
| Accumulated depreciation | 49,556 | 32,633 |
| Fixed assets, net | \$ 190,524 | \$ 200,932 |

Depreciation expenses amounted to approximately \$16,503, \$10,123 and \$10,177 (in thousands) for the years ended December 31, 2011, 2010 and 2009, respectively.

During the year ended December 31, 2011, we had impairment of property, plant and equipment in the amount of \$4.5 million.

Note 9 - Notes and Loans Payable

Notes issued to institutional investors in Israel (in the amount of \$95.9 million), the note issued to MAG and other loans payable pursuant to bank borrowings are either in U.S. dollars, linked to the Consumer Price Index (“CPI”) in Israel or in unlinked NIS, with interest rates varying depending upon their linkage provision and mature between 2009 and 2019.

The Company finances its general operations and other financial commitments through bank loans and institutional lenders. As of December 31, 2011, the outstanding indebtedness under these bank loans and notes issued to institutional investors totaled \$433.3 million and the loans mature through 2011-2019.

As of December 31, 2011, the Company has a \$3.3 million loan with Union Bank of Israel that bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008.

The Company has a long-term loan from Bank Hapoalim in the aggregate amount of \$3.5 million. The loan matures in 2018 and shall be paid in seven equal annual installments. As of December 31, 2011, the outstanding debt under the loan amounts to \$3.5 million. Interest accrues at a floating rate equal to LIBOR plus 3.5% and is payable on a quarterly basis.

As of December 31, 2011, Gadot, a wholly owned subsidiary of Ampal, has short term loans, including current maturities, payable in the amount of \$129.3 million and long term loans payable in the amount of \$123.9 million. The

various short term loans payable are either unlinked or linked to the USD or Euro and bear interest at rates between 2.3% to 6.25%. The various long term loans payable are either unlinked or linked to the CPI in Israel or linked to the USD or Euro and bear interest at rates between 0.5% to 11.4%.

As of December 31, 2011, the Company has two loans of approximately \$43.7 million between MAG and Israel Discount Bank ("IDB"). The first loan is a revolving loan that has no principal payments and may be repaid in full or in part on December 31 of each year until 2019, when a single balloon payment will become due. The second loan also matures in 2019, has no principal payments for the first 1.5 years, and shall thereafter be paid in equal installments over the remaining 9.5 years of the term. Interest on both loans accrues at a floating rate equal to LIBOR plus 2% and is payable on a current basis. Ampal has guaranteed all the obligations of MAE under the Credit Facility and Ampal's interest in Gadot has also been pledged to IDB as a security for the Credit Facility. Mr. Yosef Maiman has agreed to maintain ownership of a certain amount of the Company's Class A Common Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type. As of December 31, 2011, the outstanding indebtedness under these bank loans totaled approximately \$79.5 million.

On December 19, 2011, the Company announced that due to the current political and security situation in Egypt, including the repeated interruptions of the gas supply to EMG, the Company requested that the Trustees of its Series A, Series B and Series C Debentures, which are listed on the Tel Aviv Stock Exchange (the "Debentures"), convene a meeting of the holders of the Debentures (the "Holders") on January 1, 2012 to appoint a Holders' committee to discuss a proposal to postpone the principal payments due on the Debentures for 24 months.

On February 20, 2012, a meeting of the B Holders was held at the request of the B Holders' trustee and on March 6, 2012, the B Holders voted (the "Series B Resolution") to accelerate and set to immediate repayment the entire outstanding amounts under the Series B Debentures. The Series B Resolution provided that the acceleration would be effective two weeks after March 6, 2012, unless an additional two-week extension was granted by the committee, formed by the B Holders (the "Series B Committee") to represent the B Holders. Such extension was granted on March 20, 2012. Additional postponements of the effective date of the acceleration of the Series B Debentures are possible subject to the approval of the majority of the B Holders. As of March 12, 2012, due to the acceleration, the total amount outstanding (including interest) under the Series B Debentures (excluding the Series B Debentures held by the Company) is NIS 527,024,735 (approximately \$138.4 million). See also Note 1.

A meeting of the Series A and Series C Debenture holders is scheduled to be held on April 3, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda is a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures.

Accordingly, the company classified the debentures and the loan from IDB as a current liability.

The weighted average interest rates and the balances of these short-term borrowings at December 31, 2011 and December 31, 2010 were 4.3% on \$134.9 million and 3.8% on \$131.9 million, respectively.

Payments due as of December 31, 2011:

(U.S. Dollars in thousands)

| | Short-Term Notes and loans payable | Long-Term Notes and loans payable | Total |
|-----------------|---|--|------------|
| 2012 | \$ 211,047 | \$ 0 | \$ 211,047 |
| 2013 | | 25,690 | 25,690 |
| 2014 | | 13,875 | 13,875 |
| 2015 | | 13,143 | 13,143 |
| 2016 | | 12,771 | 12,771 |
| After year 2016 | | 160,770 | 160,770 |
| | \$ 211,047 | \$ 226,249 | \$ 437,296 |

Note 10 - Debentures

On January 1, 2012, the Company held a meeting with the Holders where the Company proposed to restructure (the "Proposal") the Debentures to postpone all principal payments due thereunder for the next two years, while continuing to make the interest payments as scheduled. Under the Proposal, the principal amount of the Debentures would not be reduced, and after the two-year period the principal payment schedule for the Debentures would return to the original terms. The Company requested that the Holders appoint a delegation (a committee of representatives) of Holders to discuss the Proposal.

On January 18, 2012, the Company announced that two separate Holders' committees had been formed: one to represent the Series A and Series C Debenture holders and the other to represent the Series B Debenture holders (the "B Holders").

On January 22, 2012, the Company announced that its Board of Directors decided to postpone making the principal payments currently coming due on the Debentures, but to continue making interest payments as scheduled. In accordance with the decision, on January 31, 2012, the Company made an interest payment on the Series B Debentures (the "Series B Debentures") to the B Holders on the scheduled payment date, and the Company did not request the return of the Company's funds held by the trustee for the B Holders.

On February 20, 2012, a meeting of the B Holders was held at the request of the B Holders' trustee and on March 6, 2012, the B Holders voted (the "Series B Resolution") to accelerate and set to immediate repayment the entire outstanding amounts under the Series B Debentures. The Series B Resolution provided that the acceleration would be effective two weeks after March 6, 2012, unless an additional two-week extension was granted by the committee, formed by the B Holders (the "Series B Committee") to represent the B Holders. Such extension was granted on March 20, 2012. Additional postponements of the effective date of the acceleration of the Series B Debentures are possible subject to the approval of the majority of the B Holders. As of March 12, 2012, due to the acceleration, the total amount outstanding (including interest) under the Series B Debentures (excluding the Series B Debentures held by the Company) is NIS 527,024,735 (approximately \$138.4 million).

For as long as the A and C Undertaking is in effect,

- a. except in the ordinary course of their respective businesses, and only on arm's length terms and for consideration to be received solely by Ampal or the applicable subsidiary, neither the Company nor any of its subsidiaries will dispose of any of their respective material assets or shall voluntarily permit the creation of new liens on any of their respective properties; provided that the Company may take the actions described above upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;
- b. neither the Company nor any of its subsidiaries will be party to any new transactions with their respective controlling shareholders or any of their respective officers, or with any entity in which their respective controlling shareholders or officers have a personal interest; provided that the Company or a subsidiary may enter into any such transactions upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;
- c. the Company will not distribute any dividends without the prior written consent of the A and C Debenture Representatives;
- d. the Company or any of its subsidiaries will not repurchase any of its debentures;
- e. the Company will not make any payments (other than interest payments) on its debentures provided that the Company may make such payments upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;

The Company also agreed to bear certain expenses of the Trustees and the Debenture Representatives, and as security for the payment of such costs, the Company deposited NIS150,000 (approximately \$40,400) with the Trustees. Additionally, the Company agreed to fully cooperate with the Trustees and the A and C Debenture Representatives and provide them with all reasonably required information regarding the Company and its subsidiaries, subject to the Trustees and the A and C Debenture Representatives entering into a non-disclosure agreement with the Company.

The A and C Undertaking provides that nothing contained in the A and C Undertaking limits any party's right to defend its interests and assert its legal rights as it may deem fit, including through the initiation of legal or similar proceedings.

Additionally, the B Holders voted to authorize the commencement of legal actions and other measures, at the discretion of Clal Finance Trusts 2007 Ltd., the trustee for the B Holders, and/or at the recommendation of the Series B Committee, to collect the principal payment which was due on January 31, 2012 and which the Company did not make. The B Holders also voted to empower the Series B Committee to continue negotiations with the Company to settle payments to the B Holders and/or to restructure the Series B Debentures, to protect the rights of the B Holders and to receive all required information from the Company regarding its financial status and its ability to meet its obligations. Accordingly, the Debentures have been classified as short-term obligations.

On February 23, 2012, the Company provided an undertaking (the "B Undertaking") to the representatives (collectively, the "B Debenture Representatives") of the B Holders. Through the B Undertaking, the Company has agreed to certain restrictions on its operations. The B Undertaking will remain in effect until the earlier of: (i) an agreement is reached with the Company's Series A, Series B and Series C debenture holders; (ii) seven days after the Company notifies the Series B Trustee that negotiations have ceased; (iii) upon the notification by any of the Series B Trustee, the B

Holders or the B Debenture Representatives to the Company that negotiations have ceased; (iv) upon the initiation of legal proceedings against the Company (including, without limitation, a notice to the Company demanding acceleration of the debt); or (v) upon the initiation of legal proceedings against the Company by the Series B Trustee or anyone on its behalf in a proceeding not initiated by the Company. The Company has agreed to the following restrictions, including, without limitation:

For as long as the B Undertaking is in effect,

- a. except in the ordinary course of their respective businesses, and only on arm's length terms and for consideration to be received by Ampal or by entities directly or indirectly controlled by Ampal ("Controlled Entities"), neither the Company nor any of the Controlled Entities will dispose of, provide options on or create liens on any of their respective material assets (including, without limitation, in its investments in East Mediterranean Gas Co. and the sugarcane ethanol production project in Colombia);

- b. neither the Company nor any of the Controlled Entities will be party to any new transactions with their respective controlling shareholders or any of their respective officers, or with any entity in which their respective controlling shareholders or officers have a personal interest (other than with respect to certain existing and ongoing transactions);
- c. the Company will not distribute any dividends and will not repay any shareholders' loan without the prior written consent of the B Debenture Representatives;
- d. neither the Company nor any of the Controlled Entities will make any payments to the controlling shareholder of the Company, his relatives or any entities owned or controlled by him and/or by his relatives (other than with respect to certain existing and ongoing transactions), without the prior written consent of the B Debenture Representatives;
- e. neither the Company nor any the Controlled Entities will make any payments to any third party, if such payments are secured by a direct or indirect guaranty of the controlling shareholder of the Company, without the prior written consent of the B Debenture Representatives;
- f. neither the Company nor any of the Controlled Entities will make any payments to their respective financial creditors (other than with respect to certain payments to banks) without the prior written consent of the B Debenture Representatives;
- g. neither the Company nor any of the Controlled Entities will repurchase, resell, transfer or pledge any of its debentures, or take any actions related to any of its repurchased debentures, other than any actions required to deregister such debentures from trade; and
- h. the Company will not make any payments on its debentures (other than interest payments).

The Company also agreed to bear certain expenses of the Series B Trustee and the B Debenture Representatives, and as security for the payment of such costs, the Company deposited NIS250,000 (approximately \$66,500) with the Series B Trustee. Additionally, the Company agreed to fully cooperate with the Series B Trustee and the B Debenture Representatives and provide them with all required information regarding the Company, its assets and its subsidiaries, subject to the Series B Trustee and the B Debenture Representatives entering into a non-disclosure agreement with the Company.

The B Undertaking provides that nothing contained in the B Undertaking limits any party's right to defend its interests and assert its legal rights as it may deem fit, including through the initiation of legal or similar proceedings.

On March 5, 2012, the Company announced that its Board of Directors decided that the Company intended to make an interest payment which was due to be paid to the Series C Debenture holders on March 7, 2012 (the "Series C Interest Payment"), if the Series B Resolution was not approved. The Board further decided that if the Series B Resolution was approved (as it was on March 6, 2012, as described above), the Series C Interest Payment would be postponed until it was clear to the Company whether the Series B Resolution to accelerate the Company's entire debt owed to the B Holders and set it to immediate payment would be enforced.

On March 26, 2012, the Company announced that the Series C Interest Payment will be paid on March 29, 2012 by transferring funds that are deposited with the trustee for the Series C debenture holders, in favor of the Series C debenture holders, and in accordance with the resolution of the Series C debenture holders of March 22, 2012.

A meeting of the Series A and Series C Debenture holders is scheduled to be held on April 3, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda is a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures.

On September 13, 2010, Ampal completed a public offering in Israel of NIS 170.0 million (approximately \$45.0 million) aggregate principal amount of its Series C debentures, due in 2019. The debentures are linked to the CPI and carry an annual interest rate of 6.95%. The Series C debentures rank pari passu with Ampal's unsecured indebtedness. The debentures will be repaid in six equal annual installments commencing on September 7, 2014, and the interest will be paid semi-annually. As of December 31, 2011, the outstanding debt under the debentures amounts to \$44.2 million. Ampal deposited an amount equal to \$12.5 million with Ziv Haft Trust Company Ltd. in accordance with a trust agreement dated August 31, 2010, to secure the first four years worth of payments of interest on the debentures. As of December 31, 2011, the outstanding amount of the deposit was \$9.2 million. The debt offering was made solely to certain non-U.S. institutional investors in accordance with Regulation S under the U.S. Securities Act of 1933, as amended. The notes have not been and will not be registered under the U.S. securities laws, or any state securities laws, and may not be offered or sold in the United States or to United States persons without registration unless an exemption from such registration is available.

On March 3, 2011 Midroog Ltd. (an affiliate of Moody's Investors Service) ("Midroog") has downgraded Ampal's Series A, Series B and Series C Debentures' (the "Debentures") ratings by one notch, to BAA1 from A3 with a negative outlook. The Debentures remain on Midroog's "Watchlist".

On May 26, 2011, Midroog downgraded the Debentures' ratings by two notches, to BAA3 from BAA1 with a negative outlook. The Debentures were removed from Midroog's "Watchlist".

On August 11, 2011, Midroog downgraded the Debentures' ratings by three notches, to BA3 from BAA3 with a negative outlook.

On December 22, 2011 Midroog has downgraded the Debentures' ratings by three notches, to B3 from BA3 with a negative outlook.

On March 15, 2012, Midroog downgraded the Debentures' ratings by three notches, to Caa3 from B3 with a negative outlook.

Due to the above downgrading of the ratings of Ampal's Series C Debentures and according to the terms of the Series C debentures, the Series C debenture holders are entitled to additional interest payments which will be calculated as follows:

The annual interest on Ampal's Series C Debentures since their issuance and until May 25, 2011 was 6.95%;

The annual interest on Ampal's Series C Debentures from May 26, 2011 and until August 10, 2011 was 7.70%;

The annual interest on Ampal's Series C Debentures from August 11, 2011 and thereafter will be 7.95%;

The weighted average interest that Ampal paid its Series C Debentures holders on September 7, 2011 was 7.41% and therefore the interest paid on September 7, 2011 was 3.705%;

The annual interest on Ampal's Series C Debentures as reflected from the above weighted average interest is 7.50%;

The annual interest on Ampal's Series C Debentures for the upcoming periods will be 7.95%; and

The semi-annual interest on Ampal's Series C Debentures for the upcoming periods will be 3.975%.

On April 27, 2011 and May 8, 2011, Ampal announced that Ampal's Board of Directors approved a repurchase program of the Debentures that are traded on the Tel Aviv Stock Exchange ("TASE"). Under the program, Ampal is authorized to repurchase the Debentures in a total amount not in excess of the NIS equivalent of \$30 million. The repurchases may be made in transactions in TASE or outside TASE, in block trades or otherwise.

The program was suspended at the Board of Directors' discretion at the beginning of 2012.

During the year ended December 31, 2011, the Company repurchased 10,619,296 Series A Debentures, 38,778,155 Series B Debentures and 7,084,437 Series C Debentures for an aggregate amount of \$12.1 million. The Company recorded a gain of \$5.8 million due to the repurchase of the debentures.

On April 29, 2008, Ampal completed a public offering in Israel of NIS 577.8 million (approximately \$166.8 million) aggregate principal amount of Series B Debentures due 2017. The debentures are linked to the CPI and carry an annual interest rate of 6.6%. The debentures rank pari passu with Ampal's unsecured indebtedness. The debentures will

be repaid in five equal annual installments commencing on January 31, 2012, and the interest will be paid semi-annually. As of December 31, 2011, the outstanding debt under the debentures amounts to \$136.9 million, due to the change in valuation of the NIS as compared to the U.S. dollar. Ampal deposited an amount of \$44.6 million with Clal Finance Trusties 2007 Ltd. in accordance with a trust agreement dated April 6, 2008, to secure the first three years' worth of payments of interest on the debentures. As of December 31, 2011, the outstanding amount of the deposit was \$5.0 million.

On November 20, 2006, the Company entered into a trust agreement with Hermetic Trust (1975) Ltd. pursuant to which the Company issued notes to institutional investors in Israel in the principal aggregate amount of NIS 250.0 million (approximately \$58.0 million) with an interest rate of 5.75%, which is linked to the CPI. The Series A Debentures were registered for trading on the TASE in August 2007. The notes shall rank pari passu with the Company's unsecured indebtedness. The notes will be repaid in five equal annual installments commencing on November 20, 2011, and the interest will be paid semi-annually. As of December 31, 2011, the outstanding debt under the notes amounts to \$53.6 million, due to the change in valuation of the NIS as compared to the U.S. dollar.

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| | Series A Debentures | | Series B Debentures | | Series C Debentures | |
|---------------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | par value in NIS in thousands | U.S. Dollars in thousands | par value in NIS in thousands | U.S. Dollars in thousands | par value in NIS in thousands | U.S. Dollars in thousands |
| Date of issuance | November 20, 2006 | | April 29, 2008 | | September 13, 2010 | |
| Linkage | Israeli CPI | | Israeli CPI | | Israeli CPI | |
| Interest | 5.75% | | 6.60% | | 6.95%+1.00%(*) | |
| Maturity date | November 2015 | | January 2016 | | September 2019 | |
| Balance as of December 31, 2008 | 244,926 | 68,995 | 509,099 | 138,661 | | |
| Purchased in 2009 | 15,039 | 3,795 | 7,929 | 1,936 | | |
| Balance as of December 31, 2009 | 229,887 | 67,772 | 501,170 | 143,167 | | |
| Issuance | | | | | 170,000 | 45,093 |
| Balance as of December 31, 2010 | 229,887 | 73,747 | 501,170 | 155,787 | 170,000 | 48,425 |
| Purchased in 2011 | 10,620 | 3,532 | 38,778 | 12,226 | 7,084 | 2,193 |
| Paid (net) | 43,85 | 13,743 | | | | |
| Balance as of December 31, 2011 | 175,414 | 53,602 | 462,392 | 136,913 | 162,916 | 44,205 |

(*) See the description above.

As of December 31, 2011, Gadot had \$2.4 million outstanding under its debentures. These debentures are not convertible into shares and are repayable in five equal annual installments on September 15, of each of the years 2008 through 2012. The unsettled balance of the principal of the debentures bears annual interest at the rate of 5.3%. The principal and interest of the debentures are linked to the CPI and the interest is payable in semi-annual installments on March 15 and September 15 of each of the years 2006 through 2012.

Note 11 – Accounts payable accrued expenses and others

(a) The balance of accounts payable accrued expenses and others as of December 31, 2011 and 2010 is comprised as follows:

As of December 31,
2011 2010
(U.S. Dollars in thousands)

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| | | |
|------------------|------------|------------|
| Short term: | | |
| Deferred income | \$ 2,331 | \$ 2,135 |
| Accrued expenses | 11,666 | 31,319 |
| Trade | 59,958 | 55,516 |
| Others | 17,945 | 13,134 |
| | 91,900 | 102,104 |
| Long term: | | |
| Others | 16,661 | 14,030 |
| | \$ 108,561 | \$ 116,134 |

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(b) Accrued severance liabilities:

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

The Company's liability for severance pay pursuant to Israeli law is partly covered by insurance policies. The accrued severance pay liability of \$14.6 million is included in accounts payable, accrued expenses and other liabilities – others, as of December 31, 2011.

The Company expects that the payments relating to future benefits to its employees upon their retirement at normal retirement age in the next 10 years will be immaterial. These payments are determined based on recent salary rates and do not include amounts that might be paid to employees who will cease working with the Company before their normal retirement age or amounts paid to employees whose retirement age extends beyond the year 2021.

Note 12 – Shareholders' Equity

Set forth below is our treasury stock as of December 31, 2011, 2010 and 2009:

| | Fiscal Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2011 | 2010 | 2009 |
| | (U.S. Dollars in thousands) | | |
| CLASS A STOCK | | | |
| Balance, beginning of year - 7,143,557, 7,143,557 and 6,851,454 shares, respectively, at cost | \$(28,763) | \$(28,763) | \$(28,500) |
| Shares purchased 0, 0 and 292,103, respectively | 0 | 0 | (263) |
| Balance, end of year - 7,143,557, 7,143,557 and 7,143,557 shares, respectively, at cost | \$(28,763) | \$(28,763) | \$(28,763) |

Note 13 – Stock Options

On October 15, 2010, the Company's Board of Directors adopted and approved, subject to the approval of the Company's shareholders, which was received on the annual meeting of shareholders held on May 5, 2011, the 2010 Incentive Plan (the "2010 Plan"). Upon shareholder approval, the Incentive Plan became effective as of October 5, 2010 and will remain in effect for a period of ten years. Stockholder approval of the 2010 Plan is intended to, among other things, (i) comply with the rules and regulations of the NASDAQ Stock Market, and (ii) permit the awards under the 2010 Plan to qualify for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended.

The 2010 Plan permits grants of options (including incentive stock options), stock appreciation rights ("SARs"), restricted stock, performance awards, other stock unit awards and dividend equivalents. The maximum number of shares of the Company's common stock issuable under the Incentive Plan is 2,000,000, plus shares that remain available under the Company's shareholder-approved 2000 Incentive Plan, as amended (the "2000 Plan"). As of December 31, 2011, 3,956,625 options under the 2000 Plan are outstanding.

The Stock Option and Compensation Committee (the "Compensation Committee") may grant options (including incentive stock options) under the 2010 Plan either alone or in addition to other awards granted under the 2000 Plan. The exercise price for options cannot be less than the fair market value of the stock underlying such options on the date of grant, which shall be the closing price of the stock as reported on the NASDAQ Stock Market on the date of grant or the immediate preceding date if there is no closing price at the time of such grant. Under the 2010 Plan,

the Compensation Committee may reprice options without obtaining shareholder approval.

The 2000 Plan imposes the following annual per-participant award limits: no participant may be granted options or SARs during any 12-month period with respect to more than 500,000 shares or (ii) restricted stock, performance awards or other stock unit awards that are denominated in stock in any 12-month period with respect to more than 500,000 shares. Additionally, the maximum dollar value payable to any participant in any 12-month period with respect to performance awards and/or other stock unit awards that are valued with reference to property other than stock is \$1,000,000.

On October 5, 2010 and on May, 5 2011, the Company's Board of Directors approved grants pursuant to the 2010 Plan to Sabih Saylan and Revital Degani, directors of the Company, of options to purchase 180,000 shares of the Company's Class A Stock at an exercise price of \$1.65 and \$1.21, respectively, per share.

The weighted average grant date fair value of options granted during 2011, 2010 and 2009 was \$0.77, \$1.25 and \$1.07, respectively.

On December 8, 2008, Ampal's Compensation Committee and its Board approved the repricing of outstanding options to purchase, in the aggregate, 2,270,000 shares of Ampal's Class A Stock, which were previously granted to ten of the Company's current employees, executive officers and directors pursuant to the 2000 Plan. The outstanding options had been originally issued with exercise prices ranging from \$3.12 to \$5.35 per share, which represented the then current market prices of Class A Stock on the dates of the original grants. The repricing was effected by canceling the outstanding options, and granting to each holder of cancelled outstanding options a new option, with a 10-year term, to purchase the total number of shares of Class A Stock underlying such cancelled outstanding options, at an exercise price equal to \$1.17 per share, the closing price of Class A Stock on NASDAQ on December 5, 2008, the most recent closing price prior to the approval by the Board of and the Committee. The repriced options maintain the vesting schedule of the cancelled outstanding options. The total expense for the repricing was approximately 199 thousand dollars and would amortize in a period of three years until 2011.

The following table summarizes the activity of both Plans for the years 2011, 2010 and 2009, respectively:

| | Options (in thousands) | Weighted- Average Exercise Price (U.S. Dollars) | Weighted- Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (U.S. Dollars in thousands) |
|----------------------------------|------------------------------|--|--|--|
| Outstanding at January 1, 2011 | 3,957 | \$1.61 | | |
| Granted at fair value | 180 | \$1.21 | | |
| Forfeited | (420) | \$1.17 | * | |
| Outstanding at December 31, 2011 | 3,717 | \$1.56 | 5.96 | 4,601 |
| Exercisable at December 31, 2011 | 2,837 | \$1.44 | 5.23 | 3,196 |

* After repricing

| | Options (in thousands) | Weighted- Average Exercise Price (U.S. Dollars) | Weighted- Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (U.S. Dollars in thousands) |
|----------------------------------|------------------------------|--|--|--|
| Outstanding at January 1, 2010 | 3,053 | \$1.29 | | |
| Granted at fair value | 910 | \$2.69 | | |
| Forfeited | (6) | \$1.17 | * | |
| Outstanding at December 31, 2010 | 3,957 | \$1.61 | 6.78 | 2,756 |
| Exercisable at December 31, 2010 | 2,759 | \$1.35 | 5.88 | 2,658 |

* After repricing

| Options | Weighted- | Weighted- | Aggregate |
|---------|-----------|-----------|-----------|
|---------|-----------|-----------|-----------|

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| | (in thousands) | Average Exercise Price (U.S. Dollars) | Average Remaining Contractual Term (in years) | Intrinsic Value (U.S. Dollars in thousands) |
|----------------------------------|-------------------|---|---|---|
| Outstanding at January 1, 2009 | 2,921 | \$1.53 | | |
| Granted at fair value | 180 | \$2.35 | | |
| Forfeited | (48) | \$1.17 | * | |
| Outstanding at December 31, 2009 | 3,053 | \$1.29 | 7.03 | 4,303 |
| Exercisable at December 31, 2009 | 2,211 | \$1.24 | 6.42 | 3,219 |

* After repricing

Valuation and Expenses

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

The fair value of options granted during the years ended December 31, 2011, 2010 and 2009 were estimated using the following weighted average assumptions: (1) expected life of options of 5.03, 5.03 and 5 years, respectively; (2) dividend yield of 0%; (3) volatility of 77.41%, 53.37% and 49.84%, respectively; and (4) risk free interest of 1.88%, 2.13% and 2.31%, respectively.

Total stock-based compensation expense recognized was approximately \$612,495 and \$844,490 for the years 2011 and 2010, respectively. No share-based compensation was capitalized in the consolidated financial statements.

At December 31, 2011, there was \$1.19 million of total unrecognized, pre-tax compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted-average period of approximately four years. The Company settles employee stock options exercises primarily with newly issued common shares and occasionally with treasury shares.

Note 14 – Earnings (Loss) Per Class A Share

Basic net earning (loss) per share is computed by dividing net income (loss) by the weighted-average number of common stock shares outstanding for the period. In 2011, 2010 and 2009, all outstanding stock options have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for these years presented. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per share follows (in thousands, except per share amounts):

| | Year Ended December 31, | | |
|--|-------------------------|-------------|-------------|
| | 2011 | 2010 | 2009 |
| Net loss attributable to Ampal's shareholders from continuing operations | \$(129,387) | \$(64,645) | \$(19,481) |
| Net income from discontinued operations | 34,066 | 19,903 | -- |
| Weighted average Class A shares outstanding | 56,134 | 56,134 | 56,151 |
| Basic and diluted net income (loss) per share: | | | |
| Loss from continuing operations | (2.30) | (1.15) | (0.35) |
| Discontinued operations | 0.61 | 0.35 | -- |
| Basic and diluted | \$(1.69) | \$(0.80) | \$(0.35) |

Options and rights that were not included in the calculations of diluted earnings per Class A shares for the years ended December 31, 2011, 2010 and 2009 because such options and rights are anti-dilutive are as follows:

| | Year ended December 31, | | |
|-----------------------------------|-------------------------|------|------|
| | 2011 | 2010 | 2009 |
| (Options and Rights in thousands) | | | |

| | | | |
|--------------------|-------|-------|-------|
| Options and Rights | 3,717 | 3,956 | 3,053 |
|--------------------|-------|-------|-------|

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Note 15 – Income Taxes

| | Year Ended December 31, | | |
|--|-----------------------------|------------|-------------|
| | 2011 | 2010 | 2009 |
| | (U.S. Dollars in thousands) | | |
| The components of income tax expense (benefit) are: | | | |
| Continuing operations | \$ 15,765 | \$(7,071) | \$(10,403) |
| Discontinued operations | 6,895 | - | - |
| | 22,660 | (7,071) | (10,403) |
| The components of current and deferred income tax expense (benefit) are: | | | |
| Current: | | | |
| Federal | \$- | - | - |
| Foreign | 3 | - | - |
| State and local | 2 | 6 | 3 |
| Deferred: | | | |
| State and local | - | - | - |
| Federal | 20,652 | (4,993) | (9,104) |
| Foreign | (4,892) | (2,084) | (1,299) |
| Total | \$ 15,765 | \$(7,071) | \$(10,403) |

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

| | | | |
|----------|--------------|-------------|-------------|
| Domestic | \$ (28,410) | \$(18,979) | \$(23,508) |
| Foreign | (106,935) | (50,105) | (6,801) |
| Total | \$(135,345) | \$(69,084) | \$(30,309) |

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

| | | | |
|--|-------------|-------------|-------------|
| Federal income tax (benefit) at 35% | \$(47,371) | \$(24,179) | \$(10,608) |
| Taxes on foreign Gain (Loss) below U.S. rate | 4,857 | (14,793) | (4,438) |
| Change in unrecognized tax benefits (expense) | 4,616 | 1,050 | - |
| Changes in valuation allowance | 53,309 | 851 | 4,315 |
| Other | 354 | 414 | 328 |
| Total effective tax: 5.2%, 10.2% and 34.3%, respectively | \$ 15,765 | \$(7,071) | \$(10,403) |

| | As of December 31, | |
|---|--------------------|-----------|
| | 2011 | 2010 |
| Deferred tax assets: | | |
| The components of deferred tax assets and liabilities are as follows: | | |
| Net operating loss and capital loss carryforwards | \$ 76,712 | \$ 68,121 |
| Unrealized losses on investments | 26,082 | 700 |
| Foreign tax credits carryforwards | 4,180 | 4,180 |
| Total deferred assets | 106,974 | 73,001 |
| Valuation allowance | (84,888) | (31,579) |
| Net deferred tax assets | 22,086 | 41,422 |

Deferred tax liabilities:

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| | | |
|---------------------------------|----------|-----------|
| Unrealized gain from securities | 5,970 | 4,716 |
| Depreciation and amortization | 7,732 | 9,059 |
| Total deferred tax liability | 13,702 | 13,775 |
| Net deferred tax assets | \$ 8,384 | \$ 27,647 |

As of December 31, 2010, the Company recognized an unrecognized tax benefit liability of \$1,949,000. During 2011 the Company recognized an additional unrecognized tax benefit liability at the amount of \$4,616,000 due to a change in unrecognized foreign expenses.

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

| | U.S. dollars in thousands | | |
|--|---------------------------|----------|--------|
| | 2011 | 2010 | 2009 |
| Balance at the beginning of the year | \$ 1,949 | \$ 582 | \$ 607 |
| Increases related to previous years tax positions | -- | -- | -- |
| Unrecognized tax benefit liability | 4,616 | -- | -- |
| Expiration of the statute of limitations for the assessment of taxes | -- | 1,367 | (25) |
| Balance at the end of the year | \$ 6,565 | \$ 1,949 | \$ 582 |

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

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

| Years: | Jurisdiction: |
|-----------|-------------------|
| 2008-2011 | Israel |
| 2007-2011 | United States (1) |

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

As of December 31, 2011, valuation allowance is provided against tax benefits on foreign net operating loss carryforwards of \$84.9 million.

As of December 31, 2011, the Company has foreign tax credits of \$4.2 million that will expire in the years 2014 through 2017.

As of December 31, 2011, the Company has U.S. federal net operating loss carryforwards of approximately \$94.2 million that will expire in the years 2025 through 2031. The utilization of net operating loss carryforwards may be subject to substantial annual limitations if there has been a significant "change in ownership." Such a "change in ownership," as described in Section 382 of the Internal Revenue Code, may substantially limit the Company's utilization of the net operating loss carryforwards.

Note 16 – Discontinued operations

On March 3, 2011, MAG completed its sale of all of the outstanding shares of 012 Smile, a wholly owned subsidiary of MAG, to Partner, in accordance with the Share Purchase Agreement between MAG, 012 Smile and Partner, signed on October 13, 2010. As part of the 012 Sale, Partner also assumed approximately NIS 800 million (approximately \$225.4 million) of the total debt of 012 Smile. Accordingly, 012 Smile has been reported as discontinued operations since December 31, 2010. The 012 Sale closed on March 3, 2011. Partner paid to Ampal approximately NIS 650 million (approximately \$180 million) out of which Ampal recorded a gain of \$28.9 million, net of an early repayment fee the Company paid in connection with the repayment of a loan received to finance the purchase of 012 Smile and net of tax, from the 012 Sale. In addition the Company recorded income from discontinued operations of \$19.9 million in 2010 and \$5.2 million in the period ended December 31, 2011.

All the indirect interest expenses were recorded as a continuing operation.

Classification

We classified certain operations as discontinued using U.S. GAAP, as the associated operations and cash flows will be eliminated from our ongoing operations and we will not have any significant continuing involvement in their operations after the respective sale transactions. For all periods presented, all of the operating results for these operations were removed from continuing operations and are presented separately as discontinued operations, net of tax. The Notes to the Consolidated Financial Statements were adjusted to exclude discontinued operations unless otherwise noted.

Note 17 – Investments in Affiliates

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

| | As of December 31, | |
|-------------------------------------|--------------------|------|
| | 2011 | 2010 |
| | % | % |
| Bay Heart Ltd. | 37 | 37 |
| Conmart Ltd. | 50 | 50 |
| Global Wind Energy | 50 | 50 |
| Temco International Ltd. | 50 | 50 |
| Gadko Logistics Ltd. | 50 | 50 |
| Trinet Investment in High-Tech Ltd. | 37.5 | 37.5 |
| Trinet Venture Capital Ltd. | 50 | 50 |

Affiliates' assets and pre-tax income (loss) are not significant compared to the consolidated total assets and pre-tax loss, respectively.

Note 18 – Operating Segments Information

Segment information presented below results primarily from operations in Israel.

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

The energy segment consists of the investment in EMG, an Egyptian joint stock company, which holds the right to supply natural gas to Israel through a pipeline from Egypt to Israel, and GWE, a joint venture that focuses on the new development and acquisition of controlling interests in renewable energy.

The real estate rental segment consists of rental property owned in Israel and the United States leased to unrelated parties.

The leisure-time segment consists of Country Club Kfar Saba Ltd. ("Kfar Saba"), the Company's 51%-owned subsidiary located in Israel.

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

| Ampal - Operating Segments Information (U.S. Dollars in thousands) | | | | | | | | |
|---|-----------|-----------|----------------|------------|--------------|-----------------------|---------------|------------|
| | Chemical | Finance | Real Estate | Energy | Leisure-Time | Inter-Company Adj. | Other Adj. | Total (**) |
| 2011 | | | | | | | | |
| Revenues (*) | 540,426 | 31,978 | | | 2,935 | | | 575,339 |
| Equity in Earnings (losses) of | | | | | | | | |
| Affiliates | 1,437 | | (1,134) | (317) | | | | (14) |
| Interest Income | | 3,535 | | | | | | 3,535 |
| Interest expense | 10,747 | 32,970 | | | 136 | | | 43,852 |
| Pretax Operating Income (loss) | (10,685) | (23,889) | | (100,923) | 166 | | (14) | (135,345) |
| Total Assets for year end | 462,180 | 452,538 | | 260,400 | 3,308 | (331,817) | | 846,609 |
| Investment in Affiliates for year end | 1,541 | 19 | 5,409 | 2,071 | | | | 9,040 |
| Capital Expenditures | 6,518 | 9 | | | 101 | | | 6,628 |
| Depreciation and Amortization | 24,686 | 1,357 | | 100,923 | 174 | | | 127,140 |

(**) Excluding held for sale assets and discontinued operation

| | Chemical | Finance | Real Estate | Energy | Leisure-Time | Inter-Company Adj. | Other Adj. | Total (**) |
|--------------|----------|---------|----------------|--------|--------------|-----------------------|---------------|---------------|
| 2010 | | | | | | | | |
| Revenues (*) | 496,551 | 5,431 | | | 2,980 | | | 504,962 |

| | | | | | | |
|--|-----------|-----------|--------|----------|-------|--------------------|
| Equity in Earnings (losses) of Affiliates | 1,257 | | (972) | (1,217) | | (932) |
| Interest Income | | 925 | | | | 925 |
| Interest expense | 13,979 | 30,070 | | | 184 | 44,233 |
| Pretax Operating Income (loss) | (10,623) | (67,003) | | | 235 | (932) (78,323) |
| Total Assets for year end | 469,056 | 508,998 | | 361,323 | 3,714 | (357,654) 985,436 |
| Investment in Affiliates for year end | 1,518 | 19 | 6,209 | 2,025 | | 9,771 |
| Capital Expenditures | 6,289 | 83 | | | 195 | 6,567 |
| Depreciation and Amortization | 17,047 | 1,247 | | | 154 | 18,448 |

(**) Excluding held for sale assets and discontinued operation

| | Chemical | Finance | Real Estate | Energy | Leisure-Time | Inter-Company Adj. | Other Adj. | Total |
|---|----------|-----------|-------------|---------|--------------|--------------------|------------|-----------|
| 2009 | | | | | | | | |
| Revenues (*) | 414,011 | 14,444 | | | 2,700 | | (5,399) | 425,756 |
| Equity in Earnings (losses) of Affiliates | 1,239 | (639) | (1,814) | | | | | (1,214) |
| Interest Income | | 3,553 | | | | | | 3,553 |
| Interest expense | 7,041 | 25,924 | | | 194 | | | 33,159 |
| Pretax Operating Income (loss) | 984 | (30,241) | | | 162 | | (1,214) | (30,309) |
| Total Assets for year end | 421,844 | 509,237 | | 361,323 | 3,396 | (335,759) | | 960,041 |
| Investment in Affiliates for year end | 3,305 | 19 | 5,894 | | | | | 9,218 |
| Capital Expenditures | 43,490 | 363 | | | 471 | | | 44,324 |
| Depreciation and Amortization | 15,126 | 1,003 | | | 174 | | | 16,303 |

(*) Including additional revenues line items that are specific to the relevant segment.

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

Revenues by Geographic Area:

| | 2011 | 2010 | 2009 |
|-----------|-----------------------------|---------|---------|
| | (U.S. Dollars in thousands) | | |
| Israel | 297,223 | 236,383 | 211,539 |
| Europe | 223,089 | 238,666 | 197,429 |
| America | 49,268 | 23,988 | 17,329 |
| Australia | 192 | 282 | -- |
| Africa | 2,123 | 2,901 | 4,118 |
| Asia | 3,444 | 2,742 | 740 |
| Total | 575,339 | 504,962 | 425,756 |

Note 19– Commitments and Contingencies

- (a) The combined minimum annual lease payments on Ampal's corporate offices in New York and in Israel and its subsidiary in Kfar Saba in 2011 were \$0.8 million. The lease of the corporate office in New York expires in 2012, the lease of the office in Herzelia Pituach expires in 2016 and the Kfar Saba lease expires in 2038. In the years 2012-2016, the combined annual lease payments on those premises will be in an aggregate amount of \$3.5 million, and thereafter, an amount totaling \$5.7 million.
- (b) Gadot leases seven vessels, with an aggregate loading capability of approximately 84,712 tons. The lease period for two of the vessels shall expire at the middle of 2012. The lease period for another three of the vessels shall expire at the end of 2013. The lease period for the remaining two vessels shall expire at the beginning of 2015 with an option to purchase.

The aggregate lease fees for the seven leased vessels in 2011 amounted to \$25.0 million. In 2012, the lease payments are expected to amount to approximately \$23.7 million. The combined minimum annual lease payments are expected to amount to approximately \$53.0 million.

Gadot has contracted a shipyard for the construction of four additional vessels built with a loading capability of 17,500 each, for a consideration of approximately \$27 million per vessel. These vessels will be delivered during 2012 and 2013.(see also information on arbitration process in respect of such vessels).

(c)The combined minimum annual lease payments for Gadot's offices and other land used in its operations is expected to amount to approximately \$12.7 million.

(d)Gadot leases a 17,000 square meter storage tank facility located in the northern bank of the Kishon port in Haifa from the port authority. The lease expires in 2022. Gadot also leases an additional 56,000 square meter storage tank area from the port authority located in the southern terminal of the Kishon port in Haifa in connection with its storage and loading services. This lease expires in 2014. Gadot also owns an additional 20,000 square meters area adjacent to the northern terminal, serving as its Israeli logistics facility and analytical and quality assurance laboratory. The lease payments for the land utilized by the northern and southern terminals in 2011 were approximately \$3.0 million. These lease fees are calculated according to the amount of space utilized by Gadot and by the amount and type of materials transported. Gadot has provided the port authority with bank guarantees in the amount of approximately \$1.9 million, linked to the CPI, in order to secure payments under these leases.

(e) Gadot grants senior employees that are not interested parties performance bonuses in addition to their monthly salary. These bonuses are calculated as a percentage of profits, ranging between 5% and 8%.

(f) The Company has issued guarantees on certain outstanding loans to its investees and suppliers in the aggregate principal amount of \$39.3 million, as follows:

(1) The Company provided a \$8.7 million guarantee on indebtedness incurred by Bay Heart.

(2) \$30.6 million guarantees of Gadot for suppliers.

(g) Legal Proceedings:

1. Gadot has received third party notices in a number of lawsuits regarding pollution of the Kishon River in Israel. These lawsuits have been filed by various claimants who claim harm by the polluted water of the river, including soldiers from various units in the Israeli Defense Forces who trained in the river, fishermen who fished in the river, the Haifa rowing club and industrial companies that use the river. Some of the lawsuits are claims for monetary damages and some are for injunctions against further pollution of the river. The monetary claims are mostly unlimited in amount and one of them is for approximately \$6 million. Therefore, the Company cannot currently estimate the range of possible loss. Gadot denies liability in all of these claims and has filed statements of defense for each claim. Part of Gadot's storage tank facility is leased from the Haifa port authority. In 2001 the port authority requested that Gadot participate in an offer to find a consultant to examine ground contamination in the area surrounding the facility. Gadot responded, denying the existence of ground contamination and, in any case, that it is the source of such contamination. Gadot believes that if there is contamination, its source is the contaminated waters of the Kishon River or the Mediterranean Sea.

2. Gadot has contracted a shipyard for the construction of four additional vessels built with a loading capability of 16,600 tons each, in exchange for consideration of approximately \$27 million per vessel. Construction on the first vessel commenced at the end of December 2010 but has not been delivered yet. Due to the fact that the construction of all vessels has not been completed on the contractual delivery dates and such construction was delayed beyond the permitted grace period, Gadot has cancelled all shipbuilding contracts (as per the right granted to Gadot, pursuant to the terms of the contracts) and has demanded the refund of all amounts paid to the builder on account of the purchase price of the vessels plus interest at the agreed annual rate of 6% pursuant to the terms of the contracts. These amounts are secured by refund guarantees issued by the Bank of China Ltd. The builder has disputed the cancellation of the contracts and has referred the matter to LMAA arbitration in London (in accordance with the terms of the contracts). In such cases the obligation of the Bank of China to make payments under its guarantees is suspended pending the arbitration award or judgment on appeal. Both parties have filed LMAA Questionnaires and buyers have filed Requests for Further Information which still remain unanswered (the deadline for replying to said requests has been set by the arbitration tribunal to be March 23, 2012). The next step is to set dates for hearings. Following an application by the buyers to set hearing dates, the arbitration tribunal has decided that the hearing dates will be November 5-17, 2012.

Note 20 – Transactions with related parties

a) The Company entered into a management services agreement with Merhav, according to which Merhav provides the Company and its subsidiaries with management, marketing, financial, development and other administrative services for an annual consideration in the year ended December 31, 2011 of NIS 24.2 million (\$6.6 million).

b) The Company entered into an Aircraft Sharing Agreement with Merhav, according to which the Company has a limited and non exclusive right to use the aircraft possessed and operated by Merhav. For the usage of the aircraft,

the Company paid Merhav a pro rata share of the fixed costs related to the aircraft (calculated annually based on the flight hours of the aircraft used by the Company compared to the total flight hours of the aircraft, with a maximum amount of \$500,000 per annum) and the direct costs and expenses of operating each flight for the Company.

c) For information regarding Option Agreement with Merhav for Sugarcane Ethanol Project in Colombia, see Note 3a1.

d) On July 1, 2010, Gadot completed the acquisition of all of the issued share capital of Merhav Agro Ltd. ("Agro") from Merhav. Agro is a supplier of plant protection products, plant growth regulators and seeds in Israel. See also Note 3a5.

Note 21 - Subsequent Events

Debt

On January 1, 2012, the Company held a meeting with the Holders. During this meeting, the Company proposed to restructure (the "Proposal") the Debentures to postpone all principal payments due thereunder for the next two years, during which period Ampal would continue to make the interest payments as scheduled. Under the Proposal, the principal amount of the Debentures would not be reduced, and after the two-year period the principal payment schedule for the Debentures would return to the original terms. The Company requested that the Holders appoint a delegation (a committee of representatives) of Holders to discuss the proposal. On January 18, 2012, the Company announced that two separate Holders' Committees had been formed: one to represent the Series A and Series C Debenture holders and the other to represent the Series B Debentures holders (the "B Holders"). The Company is negotiating with the two delegations.

On January 22, 2012, the Company announced that its Board of Directors decided to postpone making the principal payments currently coming due on the Debentures, but to continue making interest payments as scheduled. In accordance with the decision, on January 31, 2012, the Company made an interest payment on the Series B Debentures (the "Series B Debentures") to the B Holders on the scheduled payment date, and the Company did not request the return of the Company's funds held by the trustee for the B Holders.

On February 2, 2012, in connection with the previously announced negotiations by the Company regarding the restructuring of the Company's debentures, the Company provided an undertaking (the "A and C Undertaking") to the holders (collectively, the "A and C Holders") of the Company's Series A and Series C Debentures (collectively, the "A and C Series Debentures"), the joint representatives of the Holders (collectively, the "A and C Debenture Representatives") and the A and C Series Debentures' trustees (collectively, the "Trustees," and together with the A and C Holders and the A and C Debenture Representatives, collectively, the "A and C Debenture Parties"). Through the A and C Undertaking, the Company has agreed to certain restrictions on its operations. The A and C Undertaking will remain in effect until the earlier of: (i) an agreement is reached with the Company's Series A, Series B and Series C debenture holders; (ii) seven days after the Company notifies the Trustees that negotiations have ceased; (iii) upon the notification by any of the A and C Debenture Parties to the Company that negotiations have ceased; (iv) upon the initiation of legal proceedings by any of the A and C Debenture Parties; or (v) seven days after the Company initiates legal proceedings in connection with demands of the Company's debenture holders. The Company has agreed to the following restrictions, including, without limitation:

For as long as the A and C Undertaking is in effect,

- a. except in the ordinary course of their respective businesses, and only on arm's length terms and for consideration to be received solely by Ampal or the applicable subsidiary, neither the Company nor any of its subsidiaries will dispose of any of their respective material assets or shall voluntarily permit the creation of new liens on any of their respective properties; provided that the Company may take the actions described above upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;

- b. neither the Company nor any of its subsidiaries will be party to any new transactions with their respective controlling shareholders or any of their respective officers, or with any entity in which their respective controlling shareholders or officers have a personal interest; provided that the Company or a subsidiary may enter into any such transactions upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;
- c. the Company will not distribute any dividends without the prior written consent of the A and C Debenture Representatives;
- d. the Company or any of its subsidiaries will not repurchase any of its debentures;
- e. the Company will not make any payments (other than interest payments) on its debentures provided that the Company may make such payments upon giving at least seven days' prior notice to the A and C Debenture Representatives and the Trustees;

The Company also agreed to bear certain expenses of the Trustees and the Debenture Representatives, and as security for the payment of such costs, the Company deposited NIS150,000 (approximately \$40,400) with the Trustees. Additionally, the Company agreed to fully cooperate with the Trustees and the A and C Debenture Representatives and provide them with all reasonably required information regarding the Company and its subsidiaries, subject to the Trustees and the A and C Debenture Representatives entering into a non-disclosure agreement with the Company.

The A and C Undertaking provides that nothing contained in the A and C Undertaking limits any party's right to defend its interests and assert its legal rights as it may deem fit, including through the initiation of legal or similar proceedings.

On February 20, 2012, a meeting of the B Holders was held at the request of the B Holders' trustee and on March 6, 2012, the B holders voted (the "Series B Resolution"), to accelerate and set to immediate repayment the entire outstanding amounts under the Series B Debentures. The Series B Resolution provided that the acceleration would be effective two weeks after March 6, 2012, unless an additional two-week extension was granted by the committee, formed by the B Holders (the "Series B Committee") to represent the B Holders. Such extension was granted on March 20, 2012, and currently the acceleration will be effective on April 3, 2012. Additional postponements of the effective date of the acceleration of the Series B Debentures are possible subject to the approval of the majority of the B Holders. As of March 12, 2012, due to the acceleration, the total amount outstanding (including interest) under the Series B Debentures (excluding the Series B Debentures held by the Company) is NIS 527,024,735 (approximately \$138.4 million).

Additionally, the B Holders voted to authorize the commencement of legal actions and other measures, at the discretion of Clal Finance Trusts 2007 Ltd., the trustee for the B Holders, and/or at the recommendation of the Series B Committee, to collect the principal payment which was due on January 31, 2012 and which the Company did not make. The B Holders also voted to empower the Series B Committee to continue negotiations with the Company to settle payments to the B Holders and/or to restructure the Series B Debentures, to protect the rights of the B Holders and to receive all required information from the Company regarding its financial status and its ability to meet its obligations.

On February 23, 2012, the Company provided an undertaking (the "B Undertaking") to the representatives (collectively, the "B Debenture Representatives") of the B Holders. Through the B Undertaking, the Company has agreed to certain restrictions on its operations. The B Undertaking will remain in effect until the earlier of: (i) an agreement is reached with the Company's Series A, Series B and Series C debenture holders; (ii) seven days after the Company notifies the Series B Trustee that negotiations have ceased; (iii) upon the notification by any of the Series B Trustee, the B Holders or the B Debenture Representatives to the Company that negotiations have ceased; (iv) upon the initiation of legal proceedings against the Company (including, without limitation, a notice to the Company demanding acceleration of the debt); or (v) upon the initiation of legal proceedings against the Company by the Series B Trustee or anyone on its behalf in a proceeding not initiated by the Company. The Company has agreed to the following restrictions, including, without limitation:

For as long as the B Undertaking is in effect,

- a. except in the ordinary course of their respective businesses, and only on arm's length terms and for consideration to be received by Ampal or by entities directly or indirectly controlled by Ampal ("Controlled Entities"), neither the Company nor any of the Controlled Entities will dispose of, provide options on or create liens on any of their respective material assets (including, without limitation, in its investments in East Mediterranean Gas Co. and the sugarcane ethanol production project in Colombia);

- b. neither the Company nor any of the Controlled Entities will be party to any new transactions with their respective controlling shareholders or any of their respective officers, or with any entity in which their respective controlling shareholders or officers have a personal interest (other than with respect to certain existing and ongoing transactions);
- c. the Company will not distribute any dividends and will not repay any shareholders' loan without the prior written consent of the B Debenture Representatives;
- d. neither the Company nor any of the Controlled Entities will make any payments to the controlling shareholder of the Company, his relatives or any entities owned or controlled by him and/or by his relatives (other than with respect to certain existing and ongoing transactions), without the prior written consent of the B Debenture Representatives;

- e. neither the Company nor any the Controlled Entities will make any payments to any third party, if such payments are secured by a direct or indirect guaranty of the controlling shareholder of the Company, without the prior written consent of the B Debenture Representatives;
- f. neither the Company nor any of the Controlled Entities will make any payments to their respective financial creditors (other than with respect to certain payments to banks) without the prior written consent of the B Debenture Representatives;
- g. neither the Company nor any of the Controlled Entities will repurchase, resell, transfer or pledge any of its debentures, or take any actions related to any of its repurchased debentures, other than any actions required to deregister such debentures from trade; and
- h. the Company will not make any payments on its debentures (other than interest payments).

The Company also agreed to bear certain expenses of the Series B Trustee and the B Debenture Representatives, and as security for the payment of such costs, the Company deposited NIS250,000 (approximately \$66,500) with the Series B Trustee. Additionally, the Company agreed to fully cooperate with the Series B Trustee and the B Debenture Representatives and provide them with all required information regarding the Company, its assets and its subsidiaries, subject to the Series B Trustee and the B Debenture Representatives entering into a non-disclosure agreement with the Company.

The B Undertaking provides that nothing contained in the B Undertaking limits any party's right to defend its interests and assert its legal rights as it may deem fit, including through the initiation of legal or similar proceedings. On March 5, 2012, the Company announced that its Board of Directors decided that Ampal intends to make an interest payment which was due to be paid to the Series C Debenture holders on March 7, 2012 (the "Series C Interest Payment"), if the Series B Resolution is not approved. The Board further decided that if the Series B Resolution is approved (which was approved on March 6, 2012, as described above), the Series C Interest Payment will be postponed until it is clear to Ampal whether the Series B Resolution to accelerate the entire debt to the B Holders and set it to immediate payment will be implemented or not.

On March 26, 2012, the Company announced that the Series C Interest Payment will be paid on March 29, 2012 by transferring funds that are deposited with the trustee for the Series C debenture holders, in favor of the Series C debenture holders, and in accordance with the resolution of the Series C debenture holders of March 22, 2012.

A meeting of the Series A and Series C Debenture holders is scheduled to be held on April 3, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda is a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures.

On March 15, 2012, Midroog downgraded the Debentures' ratings by three notches, to Caa3 from B3 with a negative outlook.

EMG

Since the alleged terror attack of March 5, 2012 on GASCO's pipeline, gas to EMG and its Israeli clients has not been supplied. Between November 28, 2011 and March 28, 2012, there were several explosions along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company) due to alleged terror attacks, which effected gas supply to the site near El-Arish of EMG, an Egyptian joint stock company in which the Company holds a 16.8% interest, as indicated on the Company's financial statements. Neither EMG's site nor EMG's pipeline were damaged in the attacks.

Due to the alleged terror attacks, from February 5, 2011 through March 28, 2012, the supply of gas to EMG, and therefore to EMG's Israeli clients, was interrupted several times. During 2012, gas was not supplied for an aggregate of 64 days between January 1, 2012 and March 28, 2012.

Report of Independent Registered Public Accounting Firm

To: the Shareholders of Bay Heart LTD

At your request we have audited the consolidated financial information of BAY HEART LTD. (hereinafter - "the Company") as of December 31, 2011 and 2010 that is attached and marked by us for identification Purposes only . The financial information is the responsibility of the Board of Directors and management of the Company. Our responsibility is to express an opinion on the financial information based on our audit.

The financial information is prepared according to generally accepted accounting principles in United States of America (US GAAP) and includes the following:

1. Consolidated balance sheets as of December 31, 2011 and 2010.
2. Consolidated income statements, changes in shareholders' deficiency and consolidated statements of cash flow for the two years ended December 31, 2011.
3. Notes to the financial information.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial information is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis evidence supporting the amounts and disclosures in the financial information, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial information presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial information referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of operations, changes in shareholders' deficiency and cash flows of the Company for each of the two years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in United States of America.

The financial information in U.S. dollars, prepared at the request of an investor, represents a translation of the Company's financial statements in nominal values, as stated in Note B. In our opinion, such translation into U.S. dollars was appropriately performed on the basis stated in Note B.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Haifa, Israel
February 14, 2012