AMPAL-AMERICAN ISRAEL CORP
Form 10-Q
August 06, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from ______________________ to______________

Commission file number 0-538

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

New York (State or Other Jurisdiction of Incorporation of Organization)	13-0435685 (I.R.S. Employer) Identification Number
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

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

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

Yes x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Yes o No x

The number of shares outstanding of the issuer’s Class A Stock, par value $1.00 per share, its only authorized common stock, is 2,806,688 (as of July 30, 2012).

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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

ASSETS AS OF (U.S. Dollars in thousands)	June 30, 2012 (Unaudited)	December 31, 2011
Current assets:		
Cash and cash equivalents	$ 30,713	$ 54,333
Marketable securities	56	177
Accounts receivable (Net of allowance for doubtful amounts of $2,872 and $2,510)	113,294	111,172
Deposits and notes receivable	13,279	12,682
Inventories	37,143	37,757
Other assets	24,443	28,912
Total current assets	218,928	245,033
Non-current assets:		
Investments	10,487	269,871
Fixed assets, less accumulated depreciation of $55,573 and $49,556	186,315	190,524
Deposits and notes receivable	29,950	32,107
Deferred taxes	13,657	22,086
Other assets	8,567	9,701
Goodwill	65,518	67,094
Intangible assets	8,896	10,193
Total Non-current assets	323,390	601,576
TOTAL ASSETS	$ 542,318	$ 846,609

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

LIABILITIES AND EQUITY (CAPITAL DEFICIENCY) AS OF (U.S. Dollars in thousands, except share amounts)	June 30, 2012 (Unaudited)	December 31, 2011
LIABILITIES		
Current liabilities:		
Notes and loans payable and current maturities of long term loans	$ 217,786	$ 211,047
Accounts payable, accrued expenses and others	91,363	91,900
Debentures	233,737	237,084
Total current liabilities	542,886	540,031
Long term liabilities:		
Notes and loans payable	111,201	130,327
Notes to non-related limited partners	93,428	95,922
Deferred taxes	11,992	13,702
Other long-term liabilities	15,778	16,661
Total long-term liabilities	232,399	256,612
Total liabilities	775,285	796,643
Redeemable noncontrolling interest	588	604
EQUITY (CAPITAL DEFICIENCY)		
Ampal's shareholders' equity:		
Class A Stock $1 par value; June 30, 2012 and December 31, 2011, 100,000,000 shares authorized; issued 3,163,866 shares; outstanding 2,806,688 shares *	3,164	3,164
Additional paid-in capital	243,302	243,055
Accumulated deficiency	(345,854)	(127,637)
Accumulated other comprehensive loss	(12,676)	(11,781)
Treasury stock, at cost (June 30, 2012 and December 31, 2011, 357,181 shares)*	(28,763)	(28,763)
Total Ampal shareholders’ equity (capital deficiency)	(140,827)	78,038
Noncontrolling interest	(92,728)	(28,676)
Total equity (capital deficiency)	(233,555)	49,362
TOTAL LIABILITIES AND EQUITY (NET OF CAPITAL DEFICIENCY)	$ 542,318	$ 846,609

(*) Retroactively adjusted to reflect a reverse stock split (see Note 17)

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

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

SIX MONTHS ENDED JUNE 30, (U.S. Dollars in thousands, except per share amounts)	2012 (Unaudited)	2011 (Unaudited)
REVENUES:		
Chemical income	$254,864	$274,171
Real estate income	160	174
Gain on sale of fixed assets	39	40
Realized and unrealized gains on marketable securities	--	21
Translation gain	5,585	--
Equity in earnings of affiliates	326	179
Interest income	1,550	1,336
Leisure-time income	1,512	1,549
Other income	436	1,770
Total revenues	264,472	279,240
EXPENSES:		
Chemical expense - cost of goods sold	229,744	249,214
Real estate expenses	534	300
Realized and unrealized losses on marketable securities	14	--
Loss from impairment of investments	260,400	16,923
Interest expense	20,548	22,659
Translation loss	--	7,256
Marketing expenses	5,130	5,354
General, administrative and other	23,419	30,855
Total expenses	539,789	332,561
Loss from continuing operations before income taxes	(275,317)	(53,321)
Income tax expenses	(6,923)	(14,298)
Net loss from continuing operations after tax benefits	(282,240)	(67,619)
Discontinued operations:		
Gain disposal, net of tax	--	28,891
Income from discontinued operations, net of tax	--	5,175
Net income from discontinued operations	--	34,066
Net loss	(282,240)	(33,553)
Less: Net loss attributable to noncontrolling interests	64,023	11,456
Net loss attributable to Ampal's shareholders	(218,217)	(22,097)
Basic and diluted EPS:		
Loss from continuing operations attributable to Ampal's shareholders *	(77.75)	(20.01)
Discontinued operations attributable to Ampal's shareholders *	--	12.14
	$(77.75)	$(7.87)
Shares used in EPS calculation (in thousands) *	2,807	2,807

(*) Retroactively adjusted to reflect a reverse stock split (see Note 17)

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

SIX MONTHS ENDED JUNE 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011 (Unaudited)
Net loss	$(282,240)	$(33,553)
Other comprehensive income (loss), net of tax:		
Unrealized (realized) gain on available for sale securities	(8)	--
Foreign currency translation adjustments	(1,519)	1,497
Share of other comprehensive income (loss) of affiliates	603	(485)
Other comprehensive income (loss), net of tax	(924)	1,012
Comprehensive loss	(283,164)	(32,541)
Less: comprehensive loss attributable to the noncontrolling interest	(64,052)	(11,386)
Comprehensive loss attributable to the company	$(219,112)	$(21,155)

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

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

THREE MONTHS ENDED JUNE 30, (U.S. Dollars in thousands, except per share amounts)	2012 (Unaudited)	2011 (Unaudited)
REVENUES:		
Chemical income	$123,878	$139,627
Real estate income	74	62
Realized and unrealized gains on marketable securities	--	8
Gain on sale of fixed assets	48	61
Translation gain	14,268	--
Equity in earnings (loss) of affiliates	177	(2)
Interest income	455	916
Leisure-time income	857	882
Other income	230	1,133
Total revenues	139,987	142,687
EXPENSES:		
Chemical expense - cost of goods sold	109,959	123,866
Real estate expenses	345	124
Realized and unrealized losses on marketable securities	45	--
Loss from impairment of investments	--	16,923
Interest expense	12,136	12,960
Translation loss	--	3,362
Marketing expenses	2,622	2,780
General, administrative and other	12,191	17,099
Total expenses	137,298	177,114
Income (loss) from continuing operations before income taxes	2,689	(34,427)
Income tax expenses	(588)	(14,169)
Net income (loss) from continuing operations after tax benefits	2,101	(48,596)
Discontinued operations:		
Gain disposal, net of tax	--	--
Income from discontinued operations, net of tax	--	--
Net income from discontinued operations	--	--
Net income (loss)	2,101	(48,596)
Less: Net income (loss) attributable to noncontrolling interests	(5,347)	9,253
Net loss attributable to Ampal's shareholders	(3,246)	(39,343)
Basic and diluted EPS:		
Loss from continuing operations attributable to Ampal's shareholders *	(1.16)	(14.02)
Discontinued operations attributable to Ampal's shareholders *	--	--
	$(1.16)	$(14.02)
Shares used in EPS calculation (in thousands) *	2,807	2,807

(*) Retroactively adjusted to reflect a reverse stock split (see Note 17)

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

THREE MONTHS ENDED JUNE 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011 (Unaudited)
Net income (loss)	$ 2,101	$ (48,596)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(6,276)	2,611
Share of other comprehensive income (loss) of affiliates	616	(254)
Other comprehensive income (loss), net of tax	(5,660)	2,357
Comprehensive loss	(3,559)	(46,239)
Less: comprehensive income (loss) attributable to the noncontrolling interest	5,303	(9,199)
Comprehensive loss attributable to the company	$ (8,862)	$ (37,040)

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

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

SIX MONTHS ENDED JUNE 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011 (Unaudited)
Cash flows from operating activities:		
Net loss for the period	$(282,240)	$(33,553)
Net income from discontinued operations	--	(34,066)
Loss from continuing operations	(282,240)	(67,619)
Adjustments to reconcile net loss for the period to net cash provided by (used in) operating activities:		
Equity in earnings of affiliates	(326)	(179)
Realized and unrealized loss (gain) on investments, net	14	(21)
Depreciation and amortization expense	8,212	10,579
Loss from sale of fixed assets	(39)	(40)
Impairment of investment	260,400	16,923
Non cash stock based compensation	291	336
Translation loss (gain)	(5,585)	7,099
Increase in other assets	3,970	4,110
Decrease (increase) in inventories	208	(3,105)
Increase in accounts receivable	(2,543)	(3,359)
Increase (decrease) in accounts payable, accrued expenses and other	7,162	(7,795)
Gain from repurchase of debentures	--	(889)
Proceeds from sale of trading securities	(339)	318
Net cash used in operating activities	(10,815)	(43,642)
Cash flows from investing activities:		
Deposits, notes and loans receivable collected (received)	(374)	11,300
Purchase and improvements of fixed assets	(3,933)	(4,595)
Proceeds from sale of available-for-sale shares	312	--
Decrease (increase) in severance fund	631	(421)
Proceeds from sale of fixed assets	151	363
Net cash provided from (used in) investing activities	(3,213)	6,647

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

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

SIX MONTHS ENDED JUNE 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011 (Unaudited)
Cash flows from financing activities:		
Proceeds from notes issued and loans received	$ 1,895	$ 10,202
Notes and loans payable repaid	(11,110)	(64,997)
Debentures repaid	--	(4,962)
Net cash used in financing activities	(9,215)	(59,757)
Effect of exchange rate changes on cash and cash equivalents	(377)	856
Cash flows from discontinued operations:		
Cash used in operating activities of discontinued operations	--	(18,124)
Cash provided by investing activities of discontinued operations		174,085
Cash used in financing activities of discontinued operations	--	(3,973)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	--	(901)
Net cash provided by discontinued operations	--	151,087
Net increase (decrease) in cash and cash equivalents	(23,620)	55,191
Cash and cash equivalents at beginning of period (in 2011 including $8,851 from discontinued operations)	54,333	42,192
Cash and cash equivalents at end of period	$ 30,713	$ 97,383

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)

(U.S. Dollars in thousands)

Unaudited

	Equity attributable to Ampal-American Israel Corporation shareholders							
	Class A Stock **							
	Number of shares*	Amount	Additional paid-in capital **	Accumulated deficit	Accumulated other comprehensive loss	Treasury stock	Non-controlling interests	Total equity (deficit)
BALANCE AT JANUARY 1, 2012	3,164	3,164	243,055	(127,637)	(11,781)	(28,763)	(28,676)	49,362
CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2012:								
Comprehensive loss:								
Net loss for the period				(218,217)			(64,023)	(282,240)
Unrealized gain from marketable securities					(8)			(8)
Foreign currency translation adjustments					(887)		(29)	(916)
Total comprehensive loss								(283,164)
Share based compensation expense			247					247
BALANCE AT JUNE 30, 2012	3,164	3,164	243,302	(345,854)	(12,676)	(28,763)	(92,728)	(233,555)

* In thousands

(**) Retroactively adjusted to reflect a reverse stock split (see Note 17)

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)

(U.S. Dollars in thousands)

Unaudited

	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	3,164	3,164	243,037	(32,316)	103	(28,763)	(6,677)	178,548
CHANGES DURING THE SIX MONTHS ENDED JUNE 30, 2011:								
Comprehensive income (loss):								
Net loss for the period				(22,097)			(11,456)	(33,553)
Foreign currency translation adjustments					942		70	1,012
Total comprehensive loss								(32,541)
Share based compensation expense			336					336
BALANCE AT JUNE 30, 2011	3,164	3,164	243,373	(54,413)	1,045	(28,763)	(18,063)	146,343

* In thousands

(**) Retroactively adjusted to reflect a reverse stock split (see Note 17)

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

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

(Unaudited)

1. As used in these financial statements, the term the "Company" refers to Ampal-American Israel Corporation ("Ampal") and its consolidated subsidiaries.

2. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. You should read these interim condensed consolidated financial statements in conjunction with the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 2011 for a description of the critical accounting policies. Also, reference should be made to the notes to the Company's December 31, 2011 consolidated financial statements for additional information regarding the Company's consolidated financial condition, results of operations and cash flows.

3. East Mediterranean Gas Company

As of June 30, 2012, the Company's financial statements reflect a 16.8% interest in shares of East Mediterranean Gas Co. S.A.E., an Egyptian joint stock company ("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 which is being consolidated due to effective control granted through the partnership's agreement).

Since February 2011 and during 2012, there was a series of explosions along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company) due to alleged terror attacks. Neither EMG's site nor EMG's pipeline were damaged in the attacks.

After the alleged terror attacks, the supply of gas to EMG, and therefore to EMG's Israeli clients, was interrupted several times, and gas was not supplied for 89 days from January 1, 2012 to April 22, 2012.

On April 22, 2012, the Company announced that it had been advised by EMG that Egyptian General Petroleum Corporation ("EGPC") and the Egyptian Natural Gas Holding Company ("EGAS") notified EMG that they were terminating the Gas Supply and Purchase Agreement (the "Source GSPA") between the parties. EMG considers the termination attempt unlawful and in bad faith, and consequently demanded its withdrawal. EGPC and EGAS declined to withdraw their termination notice. EMG informed EGPC and EGAS that their attempt to terminate was wrongful and, both in isolation and in combination with their other conduct, constituted repudiation of the Source GSPA, permitting EMG to exercise its right to terminate the Source GSPA at common law.

On May 3, 2012, the Company announced that it had filed a request for arbitration against the Arab Republic of Egypt, in connection with the Company's investment in EMG for the breach of the bilateral investment treaty ("BIT") between Egypt and the United States. Other EMG investors, including Ampal affiliates and co-investors in EMG, also requested arbitration under Egypt's BITs with the United, States, Poland and Germany. In the treaty arbitrations, the

EMG investors claim that Egypt breached its international obligations under the applicable investment treaties by failing to provide fair and equitable treatment and full protection and security to their investments, impairing their investments through unreasonable and discriminatory measures, failing to observe the Egyptian State's obligations toward their investments, and expropriating their investments. Through the arbitrations, the investors seek, among other relief, significant monetary compensation for damages caused by Egypt's treaty violations. In accordance with the BIT between Egypt and the United States, Ampal's request for arbitration was submitted to the World Bank's International Centre for Settlement of Investment Disputes ("ICSID"). Several others US entities and a German citizen who invested in EMG have also filed requests for arbitration pursuant to the ICSID convention. Mr. Yosef A. Maiman – a Polish national – and three Ampal-affiliated entities that he controls submitted a request for arbitration under Egypt's BIT with Poland pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law.

Ampal has also been advised by EMG of the following legal proceedings involving EMG:

EMG filed a Request for Arbitration against EGPC and EGAS (collectively, “EGPC/EGAS”) on October 6, 2011 at the International Court of Arbitration of the International Chamber of Commerce (“ICC”). EGPC is an Egyptian State authority and EGAS is an Egyptian state-owned entity. They are responsible for the development and transportation of Egypt’s hydrocarbon resources. EMG and EGPC/EGAS entered into the Source GSPA on June 13, 2005. Through its Request for Arbitration, EMG has sought, in part, to enforce its rights to quantities of natural gas provided for in the Source GSPA and a Tripartite Agreement entered into by EMG, IEC and EGPC/EGAS (which EMG and EGPC/EGAS signed on June 13 2005 and which IEC signed on August 28, 2005) (the "Tripartite Agreement") and to secure compensation for EGPC/EGAS’s failure to supply contractual quantities.

Although the delivery shortfalls date back to EGPC/EGAS’s earliest deliveries under the Source GSPA, EGPC/EGAS subjected EMG to increasingly severe shortages (and at times to total stoppages) since February 2011. EGPC/EGAS have attempted to avoid liability for the shortages and stoppages by claiming that they are excused from their contractual obligations under the force majeure provisions of the Source GSPA. EMG has asked that a tribunal affirm EGPC/EGAS’s inability to invoke force majeure, and therefore to affirm EGPC/EGAS’s liability to EMG.

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 (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 GSPA; those quantities were in turn guaranteed by EGPC/EGAS through 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 GSPA and the Tripartite Agreement. Because the contractual guarantees under these two agreements are coextensive, EMG filed for declaratory relief stating that EGPC/EGAS, and not EMG, are liable to IEC for supply deficiencies. An initial procedural conference for the above arbitration was held on April 24, 2012, and the next meeting took place on May 31, 2012. The parties are currently exchanging pleadings regarding the ICC tribunal’s jurisdiction over the dispute. The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of potential compensation.

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 GSPA 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 compensation.

On May 5, 2012, EGPC/EGAS filed a Notice of Arbitration against EMG at the Cairo Regional Centre for International Commercial Arbitration for alleged breaches by EMG of its obligations under the Source GSPA. EGAS/EGPC seek, among other things, declaratory relief, monetary damages of not less than approximately $182 million and injunctive relief ordering EMG to desist from pursuing the abovementioned arbitration filed by EMG against EGPC/EGAS at the ICC.

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 developments in Egypt during 2011, the Company obtained updated quarterly interim valuations from an independent third-party valuation firm. 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 were based on the discounted cash flow (DCF) method. Due to the uncertainties, the valuation firm used a range of possible scenarios, including different assumptions regarding the profitability and discount rates of EMG.

At December 31, 2011, the valuation range determined by the independent valuation firm 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.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the quarter ended March 31, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

4. Debentures Restructuring

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 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 on deposit 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).

Accordingly, as of June 30, 2012 all the Series of the Debentures in the amount of $231.4 million have been classified as short-term obligations.

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.

On April 4, 2012, the Company announced that the Company has reached an agreement in principle on a proposed outline for arrangement (the "Term Sheet") with the Series B Committee. The Term Sheet sets out the proposed guiding principles for a detailed agreement to modify the terms of all of the Debentures. According to the Term Sheet, Ampal will postpone all of the principal payments due to the Debenture holders by two years, and will continue to make interest payments due to all of its Debentures, in accordance with the original amortization schedule. The Term Sheet provides that the postponement on the principal payments was provided in consideration for, among other things, (i) Ampal (A) issuing warrants for equity to the Debenture holders, (B) providing additional security and liens to the Debenture holders, (C) reducing its operating expenses and management fees paid (including Mr. Maiman, the Chairman, CEO and President, not being paid a salary during the postponement period) and (D) being subject to additional financial covenants, including restrictions on investments, and (ii) the controlling shareholder group (A) agreeing to make additional capital contributions to Ampal, (B) providing a security interest in the Sugarcane Ethanol Project and (C) providing the Debenture holders with the right to cause Ampal to call the loan it made in connection with the Sugarcane Ethanol project.

A meeting of the Series A and Series C Debenture holders was held on May 2, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda was a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures. Following the meeting, and for the sake of continuing the negotiations of restructuring the debt, the Company informed the Series A and Series C Debenture holders' trustees of its intent to pay to the Series A Debenture holders the interest payment due on June 3, 2012 and to deposit with the Series C Debenture trustee the amount of interest paid to the Series C Debenture holders out of the funds held in deposit with the trustee on March 29, 2012. The Company’s intention is subject to the rejection of the immediate repayment resolution by the Series A and Series C Debenture holders. Following the Company's notice, on May 15, 2012, the Series A and Series C Debenture holders voted for the cancellation of the immediate repayment decisions.

On July 17, 2012, the Company announced that it published a new proposed outline for arrangement (the "New Term Sheet") to be voted on by the Debenture holders by ballot in the upcoming days. The New Term Sheet sets out the proposed guiding principles for a detailed agreement to modify the terms of all of the outstanding Debentures. The New Term Sheet reflects the ongoing negotiations with the committees formed by the Holders. If the New Term Sheet is adopted, various court approvals, registration statements and a detailed Debenture holders' consent will be required.

According to the New Term Sheet, the Company will postpone all of the principal payments due to all of its Debentures by two years (the "Postponement Period"), starting in December 2011.

The New Term Sheet includes various undertakings to be taken by both the Company and by its controlling shareholder group upon final agreement, including, among others:

1. During the Postponement Period, the Company will continue to make semi-annual interest payments due to all of its Debentures, the first one on the later of October 1, 2012 or 10 business days after the final restructuring agreement is approved, and the rest once every six months thereafter. On the date of the first semi-annual interest payment, the Company will pay each Debenture series the entire interest accumulated up to that date;

2. Once the final restructuring agreement is approved and subject to the Company's available cash, the Company will pay the Debenture holders a sum of $5 million on account of the first principal payment after the Postponement Period. In any event the Company will pay at least $2.5 million not later than December 31, 2012 and the balance not later than June 30, 2013. Out of this amount, $1.25 million will be paid to Series B Debenture holders and the balance will be paid pro rata between all the Debenture holders;

3. For the Postponement Period, all the Debenture holders will be eligible to receive additional annual interest at the rate of 1.25% to be paid during the future principal payments. All of the Debenture holders will be eligible to receive further additional annual interest at the rate of 0.75% for the period after the Postponement Period and through the maturity of the entire debt due under the Debentures;

4. The Company will deposit with each Debenture Series holders' trustee additional cash equal to the payment of semi-annual interest payments to the Debenture holders;

5. Issuance to the Debenture holders of more than 23% of the Company's Class A Stock, resulting in the Debenture holders holding 23% of the Company's Class A Stock on a fully diluted basis after all Class A Stock has been issued according to the final restructuring agreement, while Mr. Maiman, the Chairman, President and CEO of the Company and a member of the Company's controlling shareholder group, will continue to hold at that time no less than 51% (on a fully diluted basis) of the Company's Class A Stock;

6. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's holdings in a limited partnership which holds an interest in EMG. In addition, the Company will undertake that the remuneration from realization of its holding in EMG will be distributed prorata between the Company and the other limited partners and the aforesaid limited partnership;

7. The Company's controlling shareholder group will grant the Debenture holders a single first rank lien up to a value of $20 million on 24% of the Company's controlling shareholder group's interests in the Ethanol project in Colombia, held by the controlling shareholder group (the "Ethanol Project");

8. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's right to receive payments due on a loan the Company provided to a member of the controlling shareholder group related to the Ethanol Project including the interest accrued up to the date of the realization of such lien, and a

similar lien on 25% of the equity of a company which holds the Ethanol Project, should the Company exercise said loan to equity;

9. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's right to receive payments resulting from its ongoing arbitrations against the Government of Egypt related to its holdings in EMG;

10. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's 37% interest in Bay-Heart Ltd.;

11. Mr. Maiman will grant the Debenture holders a single first rank lien, for an unlimited sum, on his 24% interest in Eltek Ltd. (Nasdaq: ELTK) ("Eltek");

12. The Company will grant the Debenture holders a single first rank lien on the Company's holdings in its fully owned Israeli subsidiary, Ampal Energy Ltd. The Company will request that Israel Discount Bank approve this lien before approving the final restructuring agreement. The lien will include terms and/or a quick resolution mechanism which would allow for a grace period before the realization of the lien if it appears that the Company is about to complete its obligations in accordance with the New Term Sheet and it can be assumed that during such grace period, the Company would complete its obligations to the Debenture holders;

13. The Company will be subject to several financial covenants and enhanced disclosure undertakings;

14. The Company will not pay dividends or other payments to its shareholders until 50% of the outstanding principal payments due to the Debentures have been repaid to the Debenture holders;

15. During the Postponement Period, the Company will not make any out-of-the-ordinary-course-of business transactions with its controlling shareholder group, without the prior consent of the Debenture holders;

16. The Company will not pay Mr. Maiman any salary during the Postponement Period, and for an additional period of two years, his cash salary will be limited to 50% of his current salary, while the remainder will be paid in the Company's Class A Stock;

17. The Debenture holders will receive a put option from a member of the Company's controlling shareholder group, exercisable between March 1, 2013 and September 1, 2013, on the loan made by the Company to the controlling shareholder group with regard to the Ethanol Project, permitting the Debenture holders to cause the Company to call the loan or to sell the shares the Company will own in the Ethanol Project to the controlling shareholder group for $22.5 million (plus interest). The payment of the loan will be made in two installments: the first 25% of the payment will be made by July 1, 2013 and the remaining 75% by March 1, 2014. If the option is exercised after April 1, 2013, the first aforesaid payment will be made 3 months after the option exercise. The put option will be cancelled in the event the Company sells its holdings in the Ethanol Project for an amount not less than $22.5 million (plus interest);

18. After the approval of the final agreement, Mr. Maiman will transfer to the Company his 24% holdings in Eltek and he will receive the Company's Class A stock with a value of $3 million. The Company will sell the holdings in Eltek and if the consideration is less than $3 million, Mr. Maiman will pay the difference not later than March 1, 2013. No later than September 1, 2013, Mr. Maiman will pay the Company the difference between the said amount and $6 million, for which he will receive additional shares of the Company's Class A Stock;

19. The controlling shareholder group of the Company will not transfer the controlling stake in the Company during the Postponement Period and will waive any rights for a "golden parachute" in case of change of control during the Postponement Period and until the first principal payment is made to all series of Debentures;

20. All of Mr. Maiman's undertakings detailed above will be mortgaged in favor of the Debenture holders and will remain valid in the event of the Company's insolvency, receivership, liquidation and stay-off proceedings;

21. The Debenture holders will have the right to set all of their the Company debt to immediate prepayment one year from the finalization and approval of the restructuring, should the Company not meet at least one of the three following milestones: Gadot's value is higher by $20 million than The Company's secured debt to Discount Bank; EMG's business has returned to normal course or EMG provides any other financial benefits to the Company; or, a third party has invested in the Ethanol Project in an investment reflecting a project value higher than the project's current value on the Company's books (which is approximately $90 million for the 100% of the project);

22. The Debenture holders will have the right to appoint an observer to The Company's Board of Directors' meetings. Said observer will be entitled to authorize Global Wind Energy's annual budget, to receive certain information from the Company regarding its expenses, etc. He will also be entitled to receive payments in accordance with the payments made to the members of the Board, and will be an additional beneficiary to the Company's Directors & Officers insurance policy;

23. During the Postponement Period, the Company's general and administrative expenses, including management fee payments to one of the members of the controlling group and payments to the Company's CFO will be reduced substantially. Should one of the three milestones detailed in Section 21 above occur, a sum of $250,000 out of the reduced sum as aforesaid will be paid to that member and to the CFO;

24. Subject to any required approvals, all payments to the Company's unsecured financial debtors will be postponed in the same manner as the debt to the Debenture holders, which will be entitled to similar pro rata rights as provided to the Debenture holders;

25. The Company will not enter to new investments during the Postponement Period without the prior consent of the Debenture holders;

26. The Company will have the right to release some of the liens according to a mechanism to be agreed upon in the final settlement agreement and to repay the debt to the Debenture holders early at the pari value and will be released at that time from all of its undertakings;

27. Not later than 90 days after the approval of the New Term Sheet, the parties will finalize the drafting of the detailed restructuring agreement and will present it for the votes of the Debenture holders; and

28. The detailed restructuring agreement will include certain exemptions from possible litigation against the Company's controlling shareholders group, its directors and its officers. Such exemptions are all subject to the Company's and Mr. Maiman's upholding their undertakings and depositing with the trustees of the Debentures an amount of $9 million by January 1, 2014 from sources which do not currently appear in the Company's forecasted cash flow, all as will be detailed in the final restructuring agreement. Notwithstanding the aforesaid, the exemption related to the Ethanol Project will be subject only to the actual payments made by the member of the Company's controlling shareholders group according to Section 17 above. On July 30, 2012, the Company amended this section of the New Term Sheet, and currently, such exemptions are subject to the Company's and Mr. Maiman's upholding their undertakings, and will be valid only as long as the Company does not undergo receivership and/or bankruptcy proceedings, except for the exemption regarding possible litigation due to the put option described in Section 17 above, which will be valid and in force as long as such put option is upheld by Mr. Maiman.

On July 30, 2012, the Company announced that should the Series B Debenture holders vote not to accept the New Term Sheet, the previous decision of the Series B Debenture holders to accelerate the Company's entire debt under the Series B Debentures and set it to immediate repayment will become effective immediately. Therefore, due to the timing of the pending vote that as noted will occur after July 31, 2012, the Company's Board of Directors has decided that the Upcoming Interest Payments will be made immediately after it is clear that the Debenture holders have approved moving forward with continuing negotiations with the Company by voting to accept the New Term Sheet.

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, and there is no assurance that the Company will reach detailed agreements with the Debenture holders and obtain all the required consents and approvals.

5. Recently Adopted and 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 ASU 2011-12 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 ASU 2011-05. The amendments are effective for public entities for annual and interim reporting periods beginning after December 15, 2011. The Company adopted this amendment on January 1, 2012.

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 guidance did not have a material impact on the financial statements.

6. Gadot Chemical Tankers and Terminals Ltd. (“Gadot”)

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’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 New Israeli Shekel ("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 sea port and Agency Services for 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.

Ampal funded the Gadot acquisition with a combination of available cash and the proceeds of the credit facility, dated November 29, 2007 (the "Credit Facilities"), 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 (as of June 30, 2012, the outstanding debt under the Credit Facilities amounts to $75.5 million). The Company has certain financial and other covenants in the Credit Facilities. The Company determined that in connection with the preparation of its March 31, 2012 financial statements it would not meet certain required covenants and 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 June 30, 2012, the Company continues to be in breach of such covenants. The outstanding balance is classified as a current liability. The bank has not requested early repayment of the loans.

7. Sugarcane Ethanol Production Project

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, an 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 evidenced by an Amended and Restated Promissory Note, dated December 25, 2008 (the “Note”), issued by Merhav in favor of Ampal, and is secured by Merhav’s pledge of its shares of Class A Stock of Ampal, pursuant to that certain Pledge Agreement, dated December 24, 2007, between Merhav and Ampal (the “Pledge Agreement”). Merhav’s obligations under the Note are guaranteed by Mr. Yosef A. Maiman pursuant to a personal guaranty, dated as of December 25, 2008 (the “Guaranty”). The Option is evidenced by an Option Agreement, dated December 25, 2007, between Merhav and Ampal, as amended on December 25, 2008 (the “Option Agreement”). The Loan, Option and related transactions are summarized in the Company's previously filed annual and periodic reports. On December 31, 2010, all the rights and obligations of Ampal in the Project were assigned to MAG.

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 MAG 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 Banco do Brasil 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 MAG, setting forth certain agreements relating to the governance of Merhav Energies. At closing, the Note and the Guaranty shall be cancelled and the pledge of Merhav’s shares of Class A Stock under the Pledge Agreement shall be released. 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.

The Exercise Agreement contains other customary closing conditions, as well as customary representations and warranties.

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.

As stated above, as a condition to closing MAG’s purchase of a 25% equity stake in Merhav Energies, Merhav, MAG 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 MAG, and (v) the right of MAG to designate 25% of the directors of Merhav Energies. In addition to preemptive rights under the Shareholders’ Agreement, MAG has been granted anti-dilution protection, which may result in the issuance of additional shares of Merhav Energies to MAG, 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 MAG 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 significant shareholder of Ampal and is wholly owned by Mr. Yosef A. Maiman, the President, CEO and a 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.

8. 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 are readily convertible into cash.

Cash equivalents equal to $0.5 million have been allocated as a compensating balance for various loans provided to the Company and would therefore be unavailable if the Company wished to pledge them in order to provide an additional source of cash.

9. 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.

10. Discontinued operations

On March 3, 2011, MAG completed its sale of all of the outstanding shares of 012 Smile Telecom Ltd., a wholly owned subsidiary of MAG ("012"), to Partner Communications Company Ltd. ("Partner"), in accordance with the Share Purchase Agreement between MAG, 012 and Partner, signed on October 13, 2010 (the “012 Sale”). 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 and net of tax, from the 012 Sale. In addition the Company recorded income from discontinued operations of $5.2 million in the period ended March 31, 2011.

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

Classification

We classified certain operations as discontinued using 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.

11. Services and Management Agreements

In February 2009, Ampal and Gadot entered into a management services agreement (intercompany transaction), according to which Ampal provides Gadot with management services for an annual consideration calculated as a percentage of Gadot's profits.

On December 30, 2010, Ampal 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 which will be determined annually and shall be equal to a percentage of the direct and indirect expenses incurred by Merhav in connection with providing services to or for the benefit of Ampal. The management fee shall be determined by the Special Committee of the Board of Directors of Ampal (composed solely of independent directors) at or around the end of each fiscal year.

As stipulated above, Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholder group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal’s independent directors negotiated and approved the transactions between Ampal and Merhav.

12. 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 changing commodity prices, 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 NIS denominated debt in the amount of NIS 150 million (approximately $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.

Gadot

Gadot uses 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. The Company uses 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 NIS.

Gadot enters into derivative financial instruments, including swaps and forward agreements. Gadot reports the fair value of the derivatives on our balance sheet. The derivatives used are not designated as a hedging instrument under Accounting Standards Codification ("ASC") No. 815. 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 locations in our consolidated balance sheet, and indicates which instruments are in an asset or liability position.

Asset Derivatives

Derivative Instrument	Location	(U.S. Dollars in thousands) June 30, 2012	December 31, 2011	June 30, 2011
SWAP contracts	Other assets	1,674	2,059	7,406
Foreign currency exchange contracts	Other assets	--	--	55

Liability Derivatives

Derivative Instrument	Location	(U.S. Dollars in thousands) June 30, 2012	December 31, 2011	June 30, 2011
SWAP contracts	Accounts payable, accrued expenses and others	1,928	1,668	415
Foreign currency exchange contracts	Accounts payable, accrued expenses and others	60	79	25

Statements of Operations

		(U.S. Dollars in thousands) Six months ended June 30,	
Derivative Instrument	Location	2012	2011
SWAP contract	Translation loss	(385)	(462)
Interest rate SWAP contract	Interest (loss) gain	(260)	1,902
Foreign currency exchange contracts	Translation (loss) gain	(20)	129

13. Fair Value Measurements

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 and 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 used by the Company within ASC No. 820 distinguishes between three levels of inputs that may be utilized when measuring fair values, 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.

The following section describes the valuation methodologies used by the Company to measure derivative contracts at fair value, including an indication of the level in the fair value hierarchy at which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models, and any significant assumptions.

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. Such financial instruments consist of interest rate and foreign exchange contracts. The fair values for the majority of these derivative contracts are based upon current quoted market prices. These financial instruments are typically exchange-traded and are generally classified within Level 1 or Level 2 of the fair value hierarchy depending on whether the exchange is deemed to be an active market or not.

Financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 consisted of the following (in thousands):

Fair Value Measurements as of :

	June 30, 2012			December 31, 2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Trading securities *	$56	$-	$56	$55	$-	$55
Available for sale securities *	-	-	-	122	-	122
Derivative assets **	-	1,674	1,674	-	2,059	2,059
Derivative liabilities **	-	(1,988)	(1,988)	-	(1,747)	(1,747)
Total	$56	$(314)	$(258)	$177	$312	$489

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 12.

The carrying amount of the Company's traded debentures as of June 30, 2012 is $204.5 million. The market value of such debentures, based on the closing price of those debentures on June 30, 2012 on the Tel Aviv Stock Exchange, was $27.5 million. The total carrying value of long-term loans as of June 30, 2012 was $320.5 million. The Company estimates that the fair value of the long-term loans approximates their carrying value, since substantially all of them bear non-fixed interest and there is no significant change in the credit risk of such loans. The fair value was determined based on level 2 inputs.

Investment in EMG with a carrying amount of $361.3 million was written off, resulting in a loss of $260.4 million, which was included in loss for the period ended June 30, 2012.

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

The Chemical segment consists of Gadot which operates mainly in the 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 Global Wind Energy, Ltd., a joint venture that focuses on the new development and acquisition of controlling interests in renewable energy.

The Leisure-time segment consists of an affiliate, Country Club Kfar Saba Ltd., the Company’s 51%-owned subsidiary, located in Israel.

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

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2012	2011	2012	2011
	(Dollars in thousands)		(Dollars in thousands)	

Revenues:				
Chemicals	$ 254,864	$ 274,171	$ 123,878	$ 139,627
Finance	7,610	3,167	15,001	2,118
Real estate rental	160	174	74	62
Leisure-time	1,512	1,549	857	882
Equity in earnings of affiliates	326	179	177	(2)
Total consolidated revenues	$ 264,472	$ 279,240	$ 139,987	$ 142,687
Pre-tax Operating income (loss):				
Chemicals	$ 5,225	$ 2,103	$ 3,635	$ 2,678
Finance	(19,983)	(38,359)	(889)	(20,120)
Energy	(260,400)	(16,923)	--	(16,923)
Real estate rental	(374)	(126)	(271)	(62)
Leisure-time	215	(16)	214	--
Total consolidated pretax loss	$ (275,317)	$ (53,321)	$ 2,689	$ (34,427)

Total Assets	June 30, 2012	December 31, 2011
Chemicals	$ 443,597	$ 462,180
Finance	415,580	450,486
Energy	2,305	262,452
Leisure-Time	4,046	3,308
Inter-segments adjustments	(323,210)	(331,817)
Total consolidated assets	$ 542,318	$ 846,609

Revenues by Geographic Area:

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2012	2011	2012	2011
	(U.S. Dollars in thousands)		(U.S. Dollars in thousands)	
Israel	142,038	97,869	84,464	36,899
Europe	106,961	161,120	51,122	95,773
America	11,712	17,667	3,758	8,106
Australia	201	181	155	181
Africa	1,651	959	347	947
Asia	1,909	1,444	141	781
Total	264,472	279,240	139,987	142,687

15. The following table summarizes securities that were not included in the calculations of diluted earnings per share of Class A Stock for the periods ended June 30, 2012 and 2011 because such shares are anti-dilutive.

(Shares in thousands)	Six Months ended June 30,		Three Months ended June 30,	
	2012	2011	2012	2011
Shares resulting from Options and Rights	180	206	180	206

16. LEGAL PROCEEDINGS:

None.

17. Subsequent Events

Debt

On July 17, 2012, the Company announced that it published a new proposed outline for arrangement (the "New Term Sheet") to be voted on by the Debenture holders in the upcoming days. The New Term Sheet sets out the proposed guiding principles for a detailed agreement to modify the terms of all of the outstanding Debentures. The New Term Sheet reflects the ongoing negotiations with the committees formed by the Holders. If the New Term Sheet is adopted, various court approvals, registration statements and a detailed Debenture holders' consent will be required.

According to the New Term Sheet, the Company will postpone all of the principal payments due to all of its Debentures by two years (the "Postponement Period"), starting in December 2011.

The New Term Sheet includes various undertakings to be taken by both the Company and by its controlling shareholder group upon final agreement, including, among others:

1. During the Postponement Period, the Company will continue to make semi-annual interest payments due to all of its Debentures, the first one on the later of October 1, 2012 or 10 working days after the final restructuring agreement is approved, and the rest once every six months thereafter. On the date of the first semi-annual interest payment, the Company will pay each Debenture series the entire interest accumulated up to that date;

2. Once the final restructuring agreement is approved and subject to the Company's available cash, the Company will pay the Debenture holders a sum of $5 million on account of the first principal payment after the Postponement Period. In any event the Company will pay at least $2.5 million not later than December 31, 2012 and the balance not later than June 30, 2013. Out of this amount, $1.25 million will be paid to Series B Debenture holders and the balance will be paid pro rata between all the Debenture holders;

3. For the Postponement Period, all the Debenture holders will be eligible to receive additional annual interest at the rate of 1.25% to be paid during the future principal payments. All of the Debenture holders will be eligible to receive further additional annual interest at the rate of 0.75% for the period after the Postponement Period and through the maturity of the entire debt due under the Debentures;

4. The Company will deposit with each Debenture Series holders' trustee additional cash equal to the payment of semi-annual interest payments to the Debenture holders;

5. Issuance to the Debenture holders of more than 23% of the Company's Class A Stock, resulting in the Debenture holders holding 23% of the Company's Class A Stock on a fully diluted basis after all Class A Stock has been issued according to the final restructuring agreement, while Mr. Maiman, the Chairman, President and CEO of the Company and a member of the Company's controlling shareholder group, will continue to hold at that time no less than 51% (on a fully diluted basis) of the Company's Class A Stock;

6. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's holdings in a limited partnership which holds an interest in EMG. In addition, the Company will undertake that the remuneration from realization of its holding in EMG will be distributed prorata between the Company and the other limited partners and the aforesaid limited partnership;

7. The Company’s controlling shareholder group will grant the Debenture holders a single first rank lien up to a value of $20 million on 24% of the Company's controlling shareholder group’s interests in the Ethanol project in Colombia, held by the controlling shareholder group (the "Ethanol Project");

8. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's right to receive payments due on a loan the Company provided to a member of the controlling shareholder group related to the Ethanol Project including the interest accrued up to the date of the realization of such lien, and a similar lien on 25% of the equity of a company which holds the Ethanol Project, should the Company exercise said loan to equity;

9. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's right to receive payments resulting from its ongoing arbitrations against the Government of Egypt related to its holdings in EMG;

10. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's 37% interest in Bay-Heart Ltd.;

11. Mr. Maiman will grant the Debenture holders a single first rank lien, for an unlimited sum, on his 24% interest in Eltek Ltd. (Nasdaq: ELTK) ("Eltek");

12. The Company will grant the Debenture holders a single first rank lien on the Company's holdings in its fully owned Israeli subsidiary, Ampal Energy Ltd. The Company will request that Israel Discount Bank approve this lien before approving the final restructuring agreement. The lien will include terms and/or a quick resolution mechanism which would allow for a grace period before the realization of the lien if it appears that the Company

is about to complete its obligations in accordance with the New Term Sheet and it can be assumed that during such grace period, the Company would complete its obligations to the Debenture holders;

13. The Company will be subject to several financial covenants and enhanced disclosure undertakings;

14. The Company will not pay dividends or other payments to its shareholders until 50% of the outstanding principal payments due to the Debentures have been repaid to the Debenture holders;

15. During the Postponement Period, the Company will not make any out-of-the-ordinary-course-of business transactions with its controlling shareholder group, without the prior consent of the Debenture holders;

16. The Company will not pay Mr. Maiman any salary during the Postponement Period, and for an additional period of two years, his cash salary will be limited to 50% of his current salary, while the remainder will be paid in the Company's Class A Stock;

17. The Debenture holders will receive a put option from a member of the Company's controlling shareholder group, exercisable between March 1, 2013 and September 1, 2013, on the loan made by the Company to the controlling shareholder group with regard to the Ethanol Project, permitting the Debenture holders to cause the Company to call the loan or to sell the shares the Company will own in the Ethanol Project to the controlling shareholder group for $22.5 million (plus interest). The payment of the loan will be made in two installments: the first 25% of the payment will be made by July 1, 2013 and the remaining 75% by March 1, 2014. If the option is exercised after April 1, 2013, the first aforesaid payment will be made 3 months after the option exercise. The put option will be cancelled in the event the Company sells its holdings in the Ethanol Project for an amount not less than $22.5 million (plus interest);

18. After the approval of the final agreement, Mr. Maiman will transfer to the Company his 24% holdings in Eltek and he will receive the Company's Class A stock with a value of $3 million. The Company will sell the holdings in Eltek and if the consideration is less than $3 million, Mr. Maiman will pay the difference not later than March 1, 2013. No later than September 1, 2013, Mr. Maiman will pay the Company the difference between the said amount and $6 million, for which he will receive additional shares of the Company's Class A Stock;

19. The controlling shareholder group of the Company will not transfer the controlling stake in the Company during the Postponement Period and will waive any rights for a "golden parachute" in case of change of control during the Postponement Period and until the first principal payment is made to all series of Debentures;

20. All of Mr. Maiman's undertakings detailed above will be mortgaged in favor of the Debenture holders and will remain valid in the event of the Company's insolvency, receivership, liquidation and stay-off proceedings;

21. The Debenture holders will have the right to set all of their the Company debt to immediate prepayment one year from the finalization and approval of the restructuring, should the Company not meet at least one of the three following milestones: Gadot's value is higher by $20 million than The Company's secured debt to Discount Bank; EMG's business has returned to normal course or EMG provides any other financial benefits to the Company; or, a third party has invested in the Ethanol Project in an investment reflecting a project value higher than the project's current value on the Company's books (which is approximately $90 million for the 100% of the project);

22. The Debenture holders will have the right to appoint an observer to The Company's Board of Directors' meetings. Said observer will be entitled to authorize Global Wind Energy's annual budget, to receive certain information from the Company regarding its expenses, etc. He will also be entitled to receive payments in accordance with the payments made to the members of the Board, and will be an additional beneficiary to the Company's Directors & Officers insurance policy;

23. During the Postponement Period, the Company's general and administrative expenses, including management fee payments to one of the members of the controlling group and payments to the Company's CFO will be reduced substantially. Should one of the three milestones detailed in Section 21 above occur, a sum of $250,000 out of the reduced sum as aforesaid will be paid to that member and to the CFO;

24. Subject to any required approvals, all payments to the Company's unsecured financial debtors will be postponed in the same manner as the debt to the Debenture holders, which will be entitled to similar pro rata rights as provided to the Debenture holders;

25. The Company will not enter to new investments during the Postponement Period without the prior consent of the Debenture holders;

26. The Company will have the right to release some of the liens according to a mechanism to be agreed upon in the final settlement agreement and to repay the debt to the Debenture holders early at the pari value and will be released at that time from all of its undertakings;

27. Not later than 90 days after the approval of the New Term Sheet, the parties will finalize the drafting of the detailed restructuring agreement and will present it for the votes of the Debenture holders; and

28. The detailed restructuring agreement will include certain exemptions from possible litigation against the Company's controlling shareholders group, its directors and its officers. Such exemptions are all subject to the Company's and Mr. Maiman's upholding their undertakings and depositing with the trustees of the Debentures an amount of $9 million by January 1, 2014 from sources which do not currently appear in the Company's forecasted cash flow, all as will be detailed in the final restructuring agreement. Notwithstanding the aforesaid, the exemption related to the Ethanol Project will be subject only to the actual payments made by the member of the Company's controlling shareholders group according to Section 17 above. On July 30, 2012, the Company amended this section of the New Term Sheet, and currently, such exemptions are subject to the Company's and Mr. Maiman's upholding their undertakings, and will be valid only as long as the Company does not undergo receivership and/or bankruptcy proceedings, except for the exemption regarding possible litigation due to the put option described in Section 17 above, which will be valid and in force as long as such put option is upheld by Mr. Maiman.

On July 30, 2012, the Company announced that should the Series B Debenture holders vote not to accept the New Term Sheet, the previous decision of the Series B Debenture holders to accelerate the Company’s entire debt under the Series B Debentures and set it to immediate repayment will become effective immediately. Therefore, due to the timing of the pending vote that as noted will occur after July 31, 2012, the Company’s Board of Directors has decided that the Upcoming Interest Payments will be made immediately after it is clear that the Debenture holders have approved moving forward with continuing negotiations with the Company by voting to accept the New Term Sheet.

Reverse Stock Split

On July 16, 2012, the Company announced that its Board of Directors approved a 1-for-20 reverse stock split (the "Split") of its Class A Stock (the "Stock"). The Split was effective as of 5:00 pm EST on July 20, 2012 and trading on a Split-adjusted basis began on July 22, 2012 on the Tel-Aviv Stock Exchange and on July 23, 2012 on the NASDAQ Capital Market. The par value of the Stock after the Split remained at $1.00 per share and the Stock continued to be traded on the NASDAQ Capital Market under the symbol "AMPL".

Upon effectiveness of the Split, every 20 shares of the Company's issued and outstanding Stock will be automatically converted into one issued and outstanding share of Stock. No cash or fractional shares were issued in connection with the Split. The Company rounded up to the next whole share in lieu of issuing fractional shares that would have been issued as a result of the Split.

The Split, which was approved by the majority of the Company's shareholders at the Annual Shareholders' Meeting on May 29, 2012, reduced the outstanding number of shares of Stock from approximately 56.1 million to approximately 2.8 million. The number of authorized shares of the Stock will not be affected by the Split.

The purpose of the Split is to raise the per share trading price of the Stock to regain compliance with the $1.00 per share minimum bid price requirement for continued listing of the Stock on the NASDAQ Capital Market. As previously disclosed, in order to regain compliance with the minimum bid price requirement, the Stock must have a minimum closing bid price of $1.00 per share for a minimum of 10 consecutive trading days. There can be no assurances that the Split will have the desired effect of raising the closing bid price of the Stock to above $1.00 per share to meet this requirement.

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

CRITICAL ACCOUNTING POLICIES

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

No significant updates have occurred since the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Revenue Recognition

In certain circumstances, sales under short-term fixed-price production type contracts or sale of products are accounted for in accordance with Staff Accounting Bulletin 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 from 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 country club subscribers are recognized ratably over the contractual period.

- Income from other services is recognized over the period during which those services are performed.

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.

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 developments in Egypt during 2011, the Company obtained updated quarterly interim valuations from an independent third-party valuation firm. 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 were based on the discounted cash flow (DCF) method. Due to uncertainties, the valuation firm used a range of possible scenarios, including different assumptions regarding the profitability and discount rates of EMG.

At December 31, 2011, the valuation range determined by the independent valuation firm 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.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the quarter ended March 31, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

Recently Adopted and 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 ASU 2011-12 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 ASU 2011-05. The amendments are effective for public entities for annual and interim reporting periods beginning after December 15, 2011. The Company adopted this amendment on January 1, 2012.

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 guidance did not have a material impact on the financial statements.

Results of Operations

Six months ended June 30, 2012 compared to six months ended June 30, 2011

The Company recorded a consolidated net loss of $218.2 million for the six months ended June 30, 2012, compared to a net loss of $22.1 million for the corresponding period in 2011. The loss in the period ended June 30, 2012 is primarily attributable to the impairment of the investment in EMG in the amount of $260.4 million (including noncontrolling interest), as compared to a $16.9 million loss in the corresponding period in 2011.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the six months ended June 30, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

The Company’s management believes, based on advice of its legal counsel, that there is a reasonable chance of recovering significant monetary compensation for damages through the above described arbitrations. Future compensation from the arbitrations, if any, was not included in the Company's financial statements.

In the six months ended June 30, 2012, the Company recorded $5.1 million of marketing and sales expense, as compared to a $5.4 million marketing and sales expense in the corresponding period in 2011. These expenses are attributable to Gadot and composed mainly of salary and commission expenses.

In the six months ended June 30, 2012, the Company recorded $23.4 million of general, administrative and other expense, as compared to $30.9 million in the corresponding period in 2011. The decrease resulted mainly from the decrease in payments of annual management fees and a reduction in general and administrative expenses.

In the six months ended June 30, 2012, the Company recorded $64.0 million of net loss attributable to noncontrolling interests, as compared to $11.5 million of net loss attributable to noncontrolling interests in the corresponding period in 2011. The loss is mainly attributable to the impairment of the investment in EMG.

In the six months ended June 30, 2012, the Company recorded a $20.5 million interest expense, as compared to a $22.7 million interest expense for the corresponding period in 2011. The interest expense relates to the financing the Company obtained in order to purchase Gadot, the Company's debentures, the Company's notes payable and the interest expense resulting from the swap agreements.

In the six months ended June 30, 2012, the Company recorded a $5.6 million translation gain, as compared to a $7.3 million translation loss for the corresponding period in 2011. The monetary value of denominated NIS balances reported on our balance sheet changes with currency exchange rates resulting in the translation gain or loss. The translation gain is related to a change in the valuation of the New Israeli Shekel (“NIS”) as compared to the U.S. Dollar, which decreased 2.7% in the six months ended June 30, 2012, as compared to an increase of 3.8% for the corresponding period in 2011.

The Company recorded a minor net gain of $0.3 million in Equity in gains of affiliates for the six months ended June 30, 2012, similar to the corresponding period in 2011.

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

	2012	2011
	(U.S. Dollars in thousands)	
Revenues:		
Chemicals	$ 254,864	$ 274,171
Finance	7,770	3,341
Leisure-time	1,512	1,549
Equity in earnings of affiliates	326	179
Total	$ 264,472	$ 279,240

The Chemicals income relates solely to Gadot and was derived 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. The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions.

In the six months ended June 30, 2012, the Company recorded $264.5 million in revenue which was comprised of $254.9 million in the Chemicals segment, $7.8 million in the Finance segment, $1.5 million in the Leisure-time segment and $0.3 million Equity in earnings of affiliates, as compared to $279.2 million for the same period in 2011, which was comprised of $274.2 million in the Chemicals segment, $3.3 million in the Finance segment, $1.5 million in the Leisure-time segment and $0.2 million Equity in earnings of affiliates. The decrease in Chemicals revenue is attributable to commodity price decrease, decrease in sales quantities and the effect of the devaluation of the Euro and NIS exchange rate versus the U.S. Dollar exchange rate in the period. The demand for chemical carriers shows moderate growth during the six months ended June 30, 2012.

	2012		2011	
	(U.S. Dollars in thousands)			
Expenses:				
Chemicals	$	249,639	$	272,068
Finance		27,919		41,705
Energy		260,400		16,923
Real estate rental		534		300
Leisure-time		1,297		1,565
Total	$	539,789	$	332,561

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In the six months ended June 30, 2012, the Company recorded $539.8 million in expenses which was comprised of $249.6 million of expenses in the Chemicals segment, $27.9 million of expenses in the Finance segment, $260.4 million of expenses in the Energy segment, $1.3 million of expenses in the Leisure-time segment and $0.5 million of expenses in the Real estate rental segment, as compared to $332.6 million in expenses for the same period in 2011, which was comprised of $272.1 million in the Chemicals segment, $41.7 million in the Finance segment, $1.6 million in the Leisure-time segment and $0.3 million of expenses in the Real estate rental segment.

Three months ended June 30, 2012 compared to three months ended June 30, 2011

The Company recorded a consolidated net loss of $3.2 million for the three months ended June 30, 2012, compared to a net loss of $39.3 million for the corresponding period in 2011. The decrease in net loss resulted mainly from impairment of the investment in EMG in the amount of $16.9 million (including noncontrolling interest) and translation loss of $3.4 million in the corresponding period in 2011, as compared to translation income of $14.3 million in the three months ended June 30, 2012.

In the three months ended June 30, 2012, the Company recorded $2.6 million of marketing and sales expense, as compared to a $2.8 million marketing and sales expense in the corresponding period in 2011. These expenses are attributable to Gadot and composed mainly of salary and commission expenses.

In the three months ended June 30, 2012, the Company recorded $12.2 million of general, administrative and other expense, as compared to $17.1 million in the corresponding period in 2011. The decrease resulted mainly from the decrease in payments of annual management fees and a reduction in general and administrative expenses.

In the three months ended June 30, 2012, the Company recorded $5.3 million of net income attributable to noncontrolling interests, as compared to $9.3 million of net loss attributable to noncontrolling interests in the corresponding period in 2011. The loss is mainly attributable to the impairment of the investment in EMG.

In the three months ended June 30, 2012, the Company recorded a $12.1 million interest expense, as compared to a $13.0 million interest expense for the corresponding period in 2011. The interest expense relates to the financing the Company obtained in order to purchase Gadot, the Company's debentures, the Company's notes payable and the interest expense resulting from the swap agreements.

In the three months ended June 30, 2012, the Company recorded a $14.3 million translation gain, as compared to a $3.4 million translation loss for the corresponding period in 2011. The monetary value of denominated NIS balances reported on our balance sheet changes with currency exchange rates resulting in the translation gain or loss. The translation gain is related to a change in the valuation of the NIS as compared to the U.S. Dollar, which decreased 5.6% in the three months ended June 30, 2012, as compared to an increase of 1.9% for the corresponding period in 2011.

The Company recorded a minor net gain of $0.2 million in Equity in gains of affiliates for the three months ended June 30, 2012, similar to the corresponding period in 2011.

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

	2012	2011
	(U.S. Dollars in thousands)	
Revenues:		
Chemicals	$ 123,878	$ 139,627

Finance		15,075		2,180
Leisure-time		857		882
Equity in earnings of affiliates		177		(2)
Total	$	139,987	$	142,687

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The Chemicals income relates solely to Gadot and was derived 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. The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions. In the past quarter, the price of crude oil slightly decreased, accordingly the prices of commodity chemicals also decreased. In the past quarter the average freight prices slightly increased.

In the three months ended June 30, 2012, the Company recorded $140.0 million in revenue, which was comprised of $123.9 million in the Chemicals segment, $15.1 million in the Finance segment, $0.9 million in the Leisure-time segment and $0.2 million Equity in earnings of affiliates, as compared to $142.7 million for the same period in 2011, which was comprised of $139.6 million in the Chemicals segment, $2.2 million in the Finance segment, $0.9 million in the Leisure-time segment and $0.2 million Equity in earnings of affiliates. The decrease in Chemicals revenue is primarily attributable to decrease in sales quantities, commodity price decrease and the effect of the devaluation of the Euro and NIS exchange rate versus the U.S. Dollar exchange rate in the period. The demand for chemical carriers shows moderate growth during the three months ended June 30, 2012.

		2012		2011
		(U.S. Dollars in thousands)		
Expenses:				
Chemicals	$	120,243	$	136,949
Finance		16,067		22,236
Energy		--		16,923
Real estate rental		345		124
Leisure-time		643		882
Total	$	137,298	$	177,114

In the three months ended June 30, 2012, the Company recorded $137.3 million in expenses, which was comprised of $120.2 million of expenses in the Chemicals segment, $16.1 million of expenses in the Finance segment, $0.6 million of expenses in the Leisure-time segment and $0.3 million of expenses in the Real estate rental segment, as compared to $177.1 million in expenses for the same period in 2011, which was comprised of $136.9 million in the Chemicals segment, $22.2 million in the Finance segment, $16.9 million in the Energy segment, $0.9 million in the Leisure-time segment and $0.1 million of expenses in the Real estate rental segment.

Income taxes

In the six month period ended June 30, 2012, the Company reported a tax expense of $6.8 million as compared to approximately $21.2 million of tax expense in the corresponding period in 2011. The tax expense which was recorded in 2012 was attributable mainly to an increase in the valuation allowance in the amount of $6.3 million, which was recorded due to the assumptions of the Company's management of the Company's ability to utilize its carryforward tax losses by way of disposition of assets. The Company intends to apply a tax planning strategy of selling all or a portion of its investments in order to utilize the net deferred income taxes that are attributable to foreign tax credits and loss carry forwards arising in the U.S., due to unrealized gain from its investments.

Liquidity and Capital Resources

Cash Flows

On June 30, 2012, cash, cash equivalents and marketable securities were $30.7 million, as compared with $54.5 million at December 31, 2011.

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, but there is no assurance that the negotiations will succeed.

In addition, Ampal's interest in Gadot has been pledged and cash equivalents equal to $0.5 million have been allocated as a compensating balance for various loans provided to the Company.

Cash flows from operating activities

Net cash used in operating activities totaled approximately $10.8 million for the six months ended June 30, 2012, compared to approximately $43.6 million used in operating activities for the corresponding period in 2011. The decrease in cash used in operating activities is primarily attributable to the reduction of expenses and the increase in accounts payables and inventory.

Cash flows from investing activities

Net cash used in investing activities totaled approximately $3.2 million for the six months ended June 30, 2012, compared to approximately $6.6 million provided from investing activities for the corresponding period in 2011.

Cash flows from financing activities

Net cash used in financing activities was approximately $9.2 million for the six months ended June 30, 2012, compared to approximately $59.1 million of net cash used in financing activities for the corresponding period in 2011. The change in cash used in financing activities is primarily attributable to the notes payable repaid due to the sale of 012’s shares in the six months ended June 30, 2011.

Investments

EMG

As of June 30, 2012, 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 which is being consolidated due to effective control granted through the partnership's agreement).

From January through April 2012, there were three explosions along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company) due to alleged terror attacks. Neither EMG's site nor EMG's pipeline were damaged in the attacks.

After the alleged terror attacks, the supply of gas to EMG, and therefore to EMG’s Israeli clients, was interrupted several times, and gas was not supplied for 89 days from January 1, 2012 to April 22, 2012.

On April 22, 2012, the Company announced that it had been advised by EMG that Egyptian General Petroleum Corporation (“EGPC”) and the Egyptian Natural Gas Holding Company (“EGAS”) notified EMG that they were terminating the Gas Supply and Purchase Agreement (the “Source GSPA”) between the parties. EMG considers the termination attempt unlawful and in bad faith, and consequently demanded its withdrawal. EGPC and EGAS declined to withdraw their termination notice. EMG informed EGPC and EGAS that their attempt to terminate was wrongful and, both in isolation and in combination with its other conduct, constituted repudiation of the Source GSPA, permitting EMG to exercise its right to terminate the Source GSPA at common law.

On May 3, 2012, the Company announced that it had filed a request for arbitration against the Arab Republic of Egypt, in connection with the Company’s investment in EMG for the breach of the bilateral investment treaty (“BIT”) between Egypt and the United States. Other EMG investors, including Ampal affiliates and co-investors in EMG, also requested arbitration under Egypt’s BITs with the United States, Poland and Germany. In the treaty arbitrations, the EMG investors claim that Egypt breached its international obligations under the applicable investment treaties by failing to provide fair and equitable treatment and full protection and security to their investments, impairing their investments through unreasonable and discriminatory measures, failing to observe the Egyptian State’s obligations toward their investments, and expropriating their investments. Through the arbitrations, the investors seek, among other relief, significant monetary compensation for damages caused by Egypt’s treaty violations. In accordance with the BIT between Egypt and the United States, Ampal’s request for arbitration was submitted to the World Bank’s International Centre for Settlement of Investment Disputes (“ICSID”). Several others US entities and a German citizen who invested in EMG have also filed requests for arbitration pursuant to the ICSID convention. Mr. Yosef A. Maiman – a Polish national – and three Ampal-affiliated entities that he controls submitted a request for arbitration under Egypt’s BIT with Poland pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (“UNCITRAL”).

Ampal has also been advised by EMG of the following legal proceedings involving EMG:

EMG filed a Request for Arbitration against EGPC and EGAS (collectively, “EGPC/EGAS”) on October 6, 2011 at the International Court of Arbitration of the International Chamber of Commerce (“ICC”). EGPC is an Egyptian State authority and EGAS is an Egyptian state-owned entity. They are responsible for the development and transportation of Egypt’s hydrocarbon resources. EMG and EGPC/EGAS entered into the Source GSPA on June 13, 2005. Through its Request for Arbitration, EMG has sought, in part, to enforce its rights to quantities of natural gas provided for in the Source GSPA and a Tripartite Agreement entered into by EMG, IEC and EGPC/EGAS (which EMG and EGPC/EGAS signed on June 13 2005 and which IEC signed on August 28, 2005) (the "Tripartite Agreement"), and to secure compensation for EGPC/EGAS’s failure to supply contractual quantities.

Although the delivery shortfalls date back to EGPC/EGAS’s earliest deliveries under the Source GSPA, EGPC/EGAS have subjected EMG to increasingly severe shortages (and at times to total stoppages) since February 2011. EGPC/EGAS have attempted to avoid liability for the shortages and stoppages by claiming that they are excused from their contractual obligations under the force majeure provisions of the Source GSPA. EMG has asked that a tribunal affirm EGPC/EGAS’s inability to invoke force majeure, and therefore to affirm EGPC/EGAS’s liability to EMG.

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 (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 GSPA; those quantities were in turn guaranteed by EGPC/EGAS through 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 GSPA and the Tripartite Agreement. Because the contractual guarantees under these two agreements are coextensive, EMG filed for declaratory relief declaring that EGPC/EGAS, and not EMG, are liable to IEC for supply deficiencies. An initial procedural conference call for the above arbitration was held on April 24, 2012, and the next meeting took place on May 31, 2012. The parties are currently exchanging pleadings regarding the ICC tribunal's jurisdiction over the dispute. The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of possible compensation.

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 GSPA 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 compensation.

On May 5, 2012, EGPC/EGAS filed a Notice of Arbitration against EMG at the Cairo Regional Centre for International Commercial Arbitration for alleged breaches by EMG of its obligations under the Source GSPA. EGAS/EGPC seek, among other things, declaratory relief, monetary damages of not less than approximately $182 million and injunctive relief ordering EMG to desist from pursuing the abovementioned arbitration filed by EMG against EGPC/EGAS at the ICC.

The Company's management believes, based on advice of its legal counsel, that there is a reasonable chance of recovering significant monetary compensation for damages through the above described arbitrations. Future compensation from the arbitrations, if any, was not included in the Company's financial statements.

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 developments in Egypt during 2011, the Company obtained updated quarterly interim valuations from an independent third-party valuation firm. 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 were based on the discounted cash flow (DCF) method. Due to uncertainties, the valuation firm used a range of possible scenarios, including different assumptions regarding the profitability and discount rates of EMG.

At December 31, 2011, the valuation range determined by the independent valuation firm 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.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the quarter ended March 31, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

GWE

In the six months ended June 30, 2012, the Company made additional investments in the amount of a $1.0 million loan to Global Wind Energy Ltd.

Debt

Notes issued to institutional investors in Israel, the convertible note issued to Merhav M.N.F Ltd. ("Merhav") 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 provisions and mature between 2011-2019.

The Company finances its general operations and other financial commitments through bank loans from Bank Hapoalim, Union Bank of Israel Ltd. ("UBI") and Israel Discount Bank Ltd. ("IDB").

Debentures

	Series A Debentures	Series B Debentures	Series C Debentures
	par value in NIS in thousands	par value in NIS in thousands	par value in NIS 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	577,823	170,000
Purchased	30,733	115,431	7,084
Paid (net)	43,853		
Balance as of June 30, 2012	175,414	462,392	162,916
	U.S. Dollars in thousands	U.S. Dollars in thousands	U.S. Dollars in thousands
Balance as of June 30, 2012	52,859	135,015	43,592
Deposits held by trusties	--	4,976	9,328

(*) See description below.

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 June 30, 2012, the outstanding debt under the debentures amounts to $43.6 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 June 30, 2012, the outstanding amount of the deposit was $9.3 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 15, 2012, Midroog (an affiliate of Moody's Investors Service) ("Midroog") downgraded Ampal's Series A, Series B and Series C Debentures' (the "Debentures") ratings by three notches, to Caa3 from B3 with a negative outlook.

On April 30, 2012, Midroog downgraded the Debentures' ratings by three notches, to C from Caa3.

Due to the 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 1% interest payments.

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 of the Debentures (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).

Accordingly, as of June 30, 2012, all three Series of Debentures have been classified as short-term obligations in the aggregate amount of $231.4 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.

On April 4, 2012, the Company announced that the Company has reached an agreement in principle on a proposed outline for arrangement (the "Term Sheet") with the Series B Committee. The Term Sheet sets out the proposed guiding principles for a detailed agreement to modify the terms of all of the Debentures. According to the Term Sheet, Ampal will postpone all of the principal payments due to the Debenture holders by two years, and will continue to make interest payments due to all of its Debentures, in accordance with the original amortization schedule. The Term Sheet provides that the postponement on the principal payments was provided in consideration for, among other things, (i) Ampal (A) issuing warrants for equity to the Debenture holders, (B) providing additional security and liens to the Debenture holders, (C) reducing its operating expenses and management fees paid (including Mr. Maiman, the Chairman, CEO and President, not being paid a salary during the postponement period) and (D) being subject to additional financial covenants, including restrictions on investments, and (ii) the controlling shareholder group (A) agreeing to make additional capital contributions to Ampal, (B) providing a security interest in the Sugarcane Ethanol Project and (C) providing the Debenture holders with the right to cause Ampal to call the loan it made in connection with the Sugarcane Ethanol project.

A meeting of the Series A and Series C Debenture holders was held on May 2, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda was a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures. Following the meeting, and for the sake of continuing the negotiations of restructuring the debt, the Company informed the Series A and Series C Debenture holders' trustees of its intent to pay to the Series A Debenture holders the interest payment due on June 3, 2012 and to deposit with the Series C Debenture trustee the amount of interest paid to the Series C Debenture holders out of the funds held in deposit with the trustee on March 29, 2012. The Company's intention is subject to the rejection of the immediate repayment resolution by the Series A and Series C Debenture holders. Following the Company's notice, on May 15, 2012, the Series A and Series C Debenture holders voted for the cancellation of the immediate repayment decisions.

On July 17, 2012, the Company announced that it published a new proposed outline for arrangement (the "New Term Sheet") to be voted on by the Debenture holders in the upcoming days. The New Term Sheet sets out the proposed guiding principles for a detailed agreement to modify the terms of all of the outstanding Debentures. The New Term Sheet reflects the ongoing negotiations with the committees formed by the Holders. If the New Term Sheet is adopted, various court approvals, registration statements and a detailed Debenture holders' consent will be required.

According to the New Term Sheet, the Company will postpone all of the principal payments due to all of its Debentures by two years (the "Postponement Period"), starting in December 2011.

The New Term Sheet includes various undertakings to be taken by both the Company and by its controlling shareholder group upon final agreement, including, among others:

1. During the Postponement Period, the Company will continue to make semi-annual interest payments due to all of its Debentures, the first one on the later of October 1, 2012 or 10 working days after the final restructuring agreement is approved, and the rest once every six months thereafter. On the date of the first semi-annual interest payment, the Company will pay each Debenture series the entire interest accumulated up to that date;

2. Once the final restructuring agreement is approved and subject to the Company's available cash, the Company will pay the Debenture holders a sum of $5 million on account of the first principal payment after the Postponement Period. In any event the Company will pay at least $2.5 million not later than December 31, 2012 and the balance not later than June 30, 2013. Out of this amount, $1.25 million will be paid to Series B Debenture holders and the balance will be paid pro rata between all the Debenture holders;

3. For the Postponement Period, all the Debenture holders will be eligible to receive additional annual interest at the rate of 1.25% to be paid during the future principal payments. All of the Debenture holders will be eligible to receive further additional annual interest at the rate of 0.75% for the period after the Postponement Period and through the maturity of the entire debt due under the Debentures;

4. The Company will deposit with each Debenture Series holders' trustee additional cash equal to the payment of semi-annual interest payments to the Debenture holders;

5. Issuance to the Debenture holders of more than 23% of the Company's Class A Stock, resulting in the Debenture holders holding 23% of the Company's Class A Stock on a fully diluted basis after all Class A Stock has been issued according to the final restructuring agreement, while Mr. Maiman, the Chairman, President and CEO of the Company and a member of the Company's controlling shareholder group, will continue to hold at that time no less than 51% (on a fully diluted basis) of the Company's Class A Stock;

6. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's holdings in a limited partnership which holds an interest in EMG. In addition, the Company will undertake that the remuneration from realization of its holding in EMG will be distributed prorata between the Company and the other limited partners and the aforesaid limited partnership;

7. The Company's controlling shareholder group will grant the Debenture holders a single first rank lien up to a value of $20 million on 24% of the Company's controlling shareholder group's interests in the Ethanol project in Colombia, held by the controlling shareholder group (the "Ethanol Project");

8. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's right to receive payments due on a loan the Company provided to a member of the controlling shareholder group related to the Ethanol Project including the interest accrued up to the date of the realization of such lien, and a similar lien on 25% of the equity of a company which holds the Ethanol Project, should the Company exercise said loan to equity;

9. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's right to receive payments resulting from its ongoing arbitrations against the Government of Egypt related to its holdings in EMG;

10. The Company will grant the Debenture holders a single first rank lien, for an unlimited sum, on the Company's 37% interest in Bay-Heart Ltd.;

11. Mr. Maiman will grant the Debenture holders a single first rank lien, for an unlimited sum, on his 24% interest in Eltek Ltd. (Nasdaq: ELTK) ("Eltek");

12. The Company will grant the Debenture holders a single first rank lien on the Company's holdings in its fully owned Israeli subsidiary, Ampal Energy Ltd. The Company will request that Israel Discount Bank approve this lien before approving the final restructuring agreement. The lien will include terms and/or a quick resolution mechanism which would allow for a grace period before the realization of the lien if it appears that the Company is about to complete its obligations in accordance with the New Term Sheet and it can be assumed that during such grace period, the Company would complete its obligations to the Debenture holders;

13. The Company will be subject to several financial covenants and enhanced disclosure undertakings;

14. The Company will not pay dividends or other payments to its shareholders until 50% of the outstanding principal payments due to the Debentures have been repaid to the Debenture holders;

15. During the Postponement Period, the Company will not make any out-of-the-ordinary-course-of business transactions with its controlling shareholder group, without the prior consent of the Debenture holders;

16. The Company will not pay Mr. Maiman any salary during the Postponement Period, and for an additional period of two years, his cash salary will be limited to 50% of his current salary, while the remainder will be paid in the Company's Class A Stock;

17. The Debenture holders will receive a put option from a member of the Company's controlling shareholder group, exercisable between March 1, 2013 and September 1, 2013, on the loan made by the Company to the controlling shareholder group with regard to the Ethanol Project, permitting the Debenture holders to cause the Company to call the loan or to sell the shares the Company will own in the Ethanol Project to the controlling shareholder group for $22.5 million (plus interest). The payment of the loan will be made in two installments: the first 25% of the payment will be made by July 1, 2013 and the remaining 75% by March 1, 2014. If the option is exercised after April 1, 2013, the first aforesaid payment will be made 3 months after the option exercise. The put option will be cancelled in the event the Company sells its holdings in the Ethanol Project for an amount not less than $22.5 million (plus interest);

18. After the approval of the final agreement, Mr. Maiman will transfer to the Company his 24% holdings in Eltek and he will receive the Company's Class A stock with a value of $3 million. The Company will sell the holdings in Eltek and if the consideration is less than $3 million, Mr. Maiman will pay the difference not later than March 1, 2013. No later than September 1, 2013, Mr. Maiman will pay the Company the difference between the said amount and $6 million, for which he will receive additional shares of the Company's Class A Stock;

19. The controlling shareholder group of the Company will not transfer the controlling stake in the Company during the Postponement Period and will waive any rights for a "golden parachute" in case of change of control during the Postponement Period and until the first principal payment is made to all series of Debentures;

20. All of Mr. Maiman's undertakings detailed above will be mortgaged in favor of the Debenture holders and will remain valid in the event of the Company's insolvency, receivership, liquidation and stay-off proceedings;

21. The Debenture holders will have the right to set all of their the Company debt to immediate prepayment one year from the finalization and approval of the restructuring, should the Company not meet at least one of the three following milestones: Gadot's value is higher by $20 million than The Company's secured debt to Discount Bank; EMG's business has returned to normal course or EMG provides any other financial benefits to the Company; or, a third party has invested in the Ethanol Project in an investment reflecting a project value higher than the project's current value on the Company's books (which is approximately $90 million for the 100% of the project);

22. The Debenture holders will have the right to appoint an observer to The Company's Board of Directors' meetings. Said observer will be entitled to authorize Global Wind Energy's annual budget, to receive certain information from the Company regarding its expenses, etc. He will also be entitled to receive payments in accordance with the payments made to the members of the Board, and will be an additional beneficiary to the Company's Directors & Officers insurance policy;

23. During the Postponement Period, the Company's general and administrative expenses, including management fee payments to one of the members of the controlling group and payments to the Company's CFO will be reduced substantially. Should one of the three milestones detailed in Section 21 above occur, a sum of $250,000 out of the reduced sum as aforesaid will be paid to that member and to the CFO;

24. Subject to any required approvals, all payments to the Company's unsecured financial debtors will be postponed in the same manner as the debt to the Debenture holders, which will be entitled to similar pro rata rights as provided to the Debenture holders;

25. The Company will not enter to new investments during the Postponement Period without the prior consent of the Debenture holders;

26. The Company will have the right to release some of the liens according to a mechanism to be agreed upon in the final settlement agreement and to repay the debt to the Debenture holders early at the pari value and will be released at that time from all of its undertakings;

27. Not later than 90 days after the approval of the New Term Sheet, the parties will finalize the drafting of the detailed restructuring agreement and will present it for the votes of the Debenture holders; and

28. The detailed restructuring agreement will include certain exemptions from possible litigation against the Company's controlling shareholders group, its directors and its officers. Such exemptions are all subject to the Company's and Mr. Maiman's upholding their undertakings and depositing with the trustees of the Debentures an amount of $9 million by January 1, 2014 from sources which do not currently appear in the Company's forecasted

cash flow, all as will be detailed in the final restructuring agreement. Notwithstanding the aforesaid, the exemption related to the Ethanol Project will be subject only to the actual payments made by the member of the Company's controlling shareholders group according to Section 17 above. On July 30, 2012, the Company amended this section of the New Term Sheet, and currently, such exemptions are subject to the Company's and Mr. Maiman's upholding their undertakings, and will be valid only as long as the Company does not undergo receivership and/or bankruptcy proceedings, except for the exemption regarding possible litigation due to the put option described in Section 17 above, which will be valid and in force as long as such put option is upheld by Mr. Maiman.

On July 30, 2012, the Company announced that should the Series B Debenture holders vote not to accept the New Term Sheet, the previous decision of the Series B Debenture holders to accelerate the Company's entire debt under the Series B Debentures and set it to immediate repayment will become effective immediately. Therefore, due to the timing of the pending vote that as noted will occur after July 31, 2012, the Company's Board of Directors has decided that the Upcoming Interest Payments will be made immediately after it is clear that the Debenture holders have approved moving forward with continuing negotiations with the Company by voting to accept the New Term Sheet.

Loans

a. 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 June 30, 2012, the outstanding debt under the loans amounts to $75.5 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. The Company determined that in connection with the preparation of its June 30, 2012 financial statements it would not meet certain required covenants and 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. The outstanding balance is classified as a current liability. The bank has not requested early repayment of the loans.

b. As of June 30, 2012, the Company has a $1.7 million loan with Union Bank of Israel that bears interest at the rate of LIBOR plus 2% to be repaid in one remaining annual installment on April 2, 2013. The loan agreement contains financial and other covenants. The Company determined that in connection with the preparation of its June 30, 2012 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. The outstanding balance is classified as a current liability. The bank has not requested early repayment of the loans.

c. As of June 30, 2012, the Company has $93.4 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.

d. 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 June 30, 2012, 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.

e. As of June 30, 2012, 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.

f. As of June 30, 2012, Gadot has short-term loans, including current maturities, payable in the amount of $139.4 million and long-term loans payable in the amount of $108.7 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 2.2% to 6.0%. 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 1.5% to 11.4%.

Our significant contractual obligations as of June 30, 2012 are summarized in the following table (in thousands):

Contractual Obligations	Total	Less than 1 year	1 – 3 years	3-5 years	More than 5 years
Short-Term Debt:					
Gadot - working capital	$ 101,809	$ 101,809			
Gadot - current maturities	$ 37,655	$ 37,655			
Ampal - revolving credit line	$ 112	$ 112			
Ampal - current maturities	$ 78,211	$ 78,211			
Debentures	$ 233,736	$ 233,736			
Long-Term Debt:					
Ampal	$ 95,928		$ 1,000	$ 1,000	$ 93,928
Gadot	108,701		27,570	24,202	56,929
Total Debt	$ 656,152	$ 451,523	$ 28,570	$ 25,202	$ 150,857

As of June 30, 2012, the Company had issued guarantees on certain outstanding loans to its investees and suppliers in the aggregate principal amount of $38.0 million, as follows:

1. The Company provided a $8.2 million guarantee on indebtedness incurred by Bay Heart.

2. $29.8 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.

FOREIGN CURRENCY CONTRACTS

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

As of June 30, 2012, the Company had open foreign currency forward exchange contracts to purchase Euros and sell U.S. Dollars in the amount of $2.4 million.

FORWARD LOOKING STATEMENTS

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

Should any of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary from those described herein as anticipated, believed, estimated, expected, intended or planned. These risks and uncertainties may include, but are not limited to, those described in this report, in Part II, Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2011, and those described from time to time in our future reports filed with the Securities and Exchange Commission. The Company assumes no obligation to update or revise any forward-looking statements.

ITEM 4. 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.

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

Part II – OTHER INFORMATION

Item 1. Legal Proceedings:

On May 3, 2012, the Company announced that it had filed a request for arbitration against the Arab Republic of Egypt, in connection with the Company’s investment in EMG for the breach of the BIT between Egypt and the United States. Other EMG investors, including Ampal affiliates and co-investors in EMG, also requested arbitration under Egypt’s BITs with the United States, Poland and Germany. In the treaty arbitrations, the EMG investors claim that Egypt breached its international obligations under the applicable investment treaties by failing to provide fair and equitable treatment and full protection and security to their investments, impairing their investments through unreasonable and discriminatory measures, failing to observe the Egyptian State’s obligations toward their investments, and expropriating their investments. Through the arbitrations, the investors seek, among other relief, significant monetary compensation for damages caused by Egypt’s treaty violations. In accordance with the BIT between Egypt and the United States, Ampal’s request for arbitration was submitted to the World Bank’s International Centre for Settlement of Investment Disputes (“ICSID”). Several others US entities and a German citizen who invested in EMG have also filed requests for arbitration pursuant to the ICSID convention. Mr. Yosef A. Maiman – a Polish national – and three Ampal-affiliated entities that he controls submitted a request for arbitration under Egypt’s BIT with Poland pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL).

The Company’s management believes, based on advice of its legal counsel, that there is a reasonable chance of recovering significant monetary compensation for damages through the above described arbitrations. Future compensation from the arbitrations, if any, was not included in the Company's financial statements.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits:

11.1 Schedule Setting Forth Computation of Earnings Per Share of Class A Stock.

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

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

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

SIGNATURES

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

AMPAL-AMERICAN ISRAEL CORPORATION

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

By: /s/ Irit Eluz
Irit Eluz
CFO and Senior Vice President,
Finance and Treasurer
(Principal Financial Officer)

By: /s/ Nir Bernstein
Nir Bernstein
Vice President - Accounting and Controller
(Principal Accounting Officer)

Date: August 5, 2012

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

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