AMPAL AMERICAN ISRAEL CORP /NY/
Form 10-K
March 27, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2002

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

Registrant s telephone number, including area code: (212) 593-9842.
Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Class A Stock, par value $1.00 per share
4% Cumulative Convertible Preferred Stock, par value $5.00 per share
6 1/2% Cumulative Convertible Preferred Stock, par value $5.00 per share
(Titles of Classes)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

10-K or any amendment to this Form 10-K o.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No x

The aggregate market value of the shares of Class A Stock by non affiliates of the registrant on June 28,2002, the last business day of the registrant s most recently completed second fiscal quarter was $29,634,053, based upon the closing price on such stock on that date.

As of March 9, 2003, the number of shares outstanding of the registrant s Class A Stock, its only authorized common stock, is 19,684,948 based upon the closing price of such stock on that date.

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
OF AMPAL-AMERICAN ISRAEL CORPORATION

PART I

ITEM 1. BUSINESS

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

For industry segment financial information and financial information about foreign and domestic operations, see Note 14 to the Company s consolidated financial statements included elsewhere in this Report. The companies described below under Telecommunication, Energy, High Technology and Capital Markets and Other Holdings are included in the Finance segment. The companies described under Real Estate are included in the Real Estate Rental segment. The companies described under Leisure-Time are included in the Leisure-Time segment.

The Company primarily acquires interests in businesses located in the State of Israel or that are Israel-related. An important objective of Ampal is to make investments in companies that operate in Israel initially and then expand abroad. As a general investing guideline, Ampal seeks to acquire and maintain a sufficient interest in a company to permit it, on its own or with investment partners, to have a significant influence in the management and operation of that company. In determining whether to acquire an interest in a specific company, Ampal considers quality of management, return on investment, growth potential, projected cash flow, investment size and financing, and reputable investment partners.

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

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

Unless specifically stated otherwise in this Report, the Company did not receive dividends or other payments from its investee companies.

Listed below by industry segment are substantially all of the investee companies in which the Company had ownership interests during the fiscal year ended December 31, 2002, the principal business of each and the percentage of equity owned, directly or indirectly, by Ampal. The table below also indicates whether the investee s securities are listed on the New York Stock Exchange (NYSE), Nasdaq National Market (Nasdaq), American Stock Exchange (AMEX), Tel Aviv Stock Exchange (TASE) or the Canadian Venture Exchange (CDNX). Further information with respect to the more significant investee companies is provided after the following table. For additional information concerning the investee companies, annual reports on Forms 10-K previously filed by Ampal are herein incorporated by reference.

Industry Segment	Principal Business	Percentage as of December 31, 2002[1]
Telecommunication		
MIRS Communications Ltd.	Wireless Communications Service Provider	25.0
Energy		
Granite Hacarmel Investments Ltd. (TASE)	Distribution of Refined Petroleum Products	20.4
High-Technology		
Babylon Ltd.	Translation Software for the Internet	1.6
BridgeWave Communications, Inc.	Broadband Wireless Technology	6.0
Camelot Information Technologies Ltd.	Systems-Safeguarding Software	N/A
Clalcom Ltd.	Communications	0.7
Courses Investment in Technology Ltd.	Venture Capital Fund	3.2(3)
CUTe Ltd.	Designs Intellectual Property Rights	20.0
ElephantX dot com LLC.	Software for E-Trading	0.5
Enbaya Ltd.	3D Browser/Publisher	N/A
Identify Solutions Ltd.	Defect-Detecting Software	6.5
Modem Art Ltd.	Fabless Semiconductor Company	5.2
mPrest Technologies Ltd.	Web-Based Applications for Cellular Phones	9.5
Netformx Ltd.	Network Design Tools	19.6(2)
Oblicore Ltd.	Service Performance Tracking Software	13.9
Ophir Holdings Ltd. (Ophir)	Holding Company	42.5
Ophirtech Ltd. (Ophirtech)	Holding Company	42.5
Carmel Bio-Sensors Ltd.	Glucose-measuring products	N/A
Celvibe Ltd.	Digital Video Technologies	5.4(2)
Cerel Ceramic Technologies Ltd.	Electrophoretic Deposition	6.1(2)
Cipheractive Ltd.	Video Coding Technology	2.8(2)
Elpas Ltd.	Products Using Infra-Red Based Data Communication Technologies	5.0(2)
Expand Networks Ltd.	Internet Data Compression	4.7(2)
Indocs Online Ltd.	E-Commerce Software	5.0(2)
Interlink Computer Communications Ltd.	Web-Based Application Integration Software	N/A
iRadius.com, Inc.	Family-Friendly E-Commerce Platforms	N/A
Mainsoft Corporation	UNIX Tools	0.8(2)
Pelican Security Ltd.	Internet Data Protection Software	6.7(2)
Praxell, Inc.	Prepaid Charge Card Software	3.5(2)
Romidot Ltd.	Optical Checking Instruments	N/A
StoreAge Networking Technologies Ltd.	Data Storage Software	4.6(2)
Techimage Ltd.	Computer Animation Software	N/A
Viola Networks	Computer Network Software	6.8(2)
Peptor Ltd.	Pharmaceutical Products	0.5
PowerDsine Ltd.	Telecommunications Components	8.1
Qronus Interactive Israel (1994) Ltd.	Software Quality Products	9.5
ShellCase Ltd. (CDNX:SSD)	Packaging Process for Semiconductor Chips	14.0
Shiron Satellite Communications (1996) Ltd.	Satellite Modems and Fast Internet Access	9.8
Smart Link Ltd.	Software-Based Communications Products	13.6
Star Management of Investments No. II (2000) L.P.	Venture Capital Fund	10.0

Industry Segment	Principal Business	Percentage as of December 31, 2002[1]
High-Technology and Communications - Continued		
Trinet Venture Capital Ltd.	Venture Capital Fund	50.0
VisionCare Ophthalmic Technologies Ltd.	Advanced Optical Products	2.5
XACCT Technologies Ltd.	TCP/IP Network Software	16.9
Xpert Integrated Systems Ltd.	Software and Systems Integrator Specializing in Systems Security	12.7
Real Estate		
Am-Hal Ltd.	Chain of Senior Citizen Facilities	100.0
Ampal Development (Israel) Ltd.	Holding Company	100.0
Ampal (Israel) Ltd.	Holding Company and Real Estate	100.0
Bay Heart Limited	Shopping Mall Owner/Lessor	37.0
Etz Vanir Ltd. and Yakhin Mataim Ltd.	Citrus Groves	(4)
Nir Ltd.	Commercial Real Estate	99.9
Ophir Holdings Ltd. (Ophir Holdings)	Holding Company	42.5
Industrial Buildings Corporation Ltd. (TASE)	Industrial Real Estate	5.0(3)
Lysh The Coastal High-way Ltd.	Commercial Real Estate	10.6(3)
Meimadim Investments Ltd.	Commercial Real Estate	4.2(3)
New Horizons (1993) Ltd.	Commercial Real Estate	34.0(3)
Shmey-Bar Group	Commercial Real Estate	9.4(3)
Leisure-Time		
Coral World International Limited	Underwater Observatories and Marine Parks	50.0
Country Club Kfar Saba Limited	Country Club Facility	51.0
Hod Hasharon Sport Center (1992) Limited Partnership	Country Club Facility	50.0
Capital Markets and Other Holdings		
Ampal Industries (Israel) Ltd.	Holding Company	100.0
Alvarion (Nasdaq:ALVR)	Wireless Local Area Network	1.5
Arel Communications and Software Ltd. (Nasdaq:ARLC)	Interactive Distance Learning Systems	3.0
Blue Square-Israel Ltd. (NYSE:BSI and TASE)	Supermarket Chain	3.9
Carmel Container Systems Limited (AMEX:KML)	Packaging Materials and Carton Production	21.8
Compugen Ltd. (Nasdaq:CGEN)	Bioinformatics	1.4
Epsilon Investment House Ltd. and Renaissance Investment Company Ltd.	Portfolio Management and Underwriting Services	20.0

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

(2) As of December 31, 2002, Ophirtech Ltd. held the following percentage interests:

Carmel Bio-Sensors Ltd.	N/A
Celvibe Ltd.	12.8
Cerel Ltd	14.2
Cipheractive Ltd.	6.6
Elpas Ltd.	11.8
Expand Networks Ltd.	11.2

Indocs Online Ltd.	11.9
Interlink Computer Communications Ltd.	N/A
iRadius.com, Inc.	N/A
Mainsoft Corporation Ltd.	1.9
Netformx Ltd.	5.5
Pelican Security Ltd.	15.7
Praxell, Inc.	8.2
Romidot Ltd.	N/A
StoreAge Networking Technologies Ltd.	10.9
Techimage Ltd.	N/A
Viola Networks	16.0

The Company s percentage interest in the above companies reflects 42.5% of Ophirtech Ltd. s ownership plus any direct holdings.

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(3) As of December 31, 2002, Ophir Holdings Ltd. held the following percentage interests:

Courses Investment in Technology Ltd.	3.5
Industrial Buildings Corporation Ltd.	11.7
Lysh The Coastal High-way Ltd.	25.0
Meimadim Investments Ltd.	10.0
New Horizons (1993) Ltd.	80.0
Shmey-Bar (I.A.) 1993, Ltd., Shmey-Bar (T.H.) 1993 Ltd. and Shmey-Bar Real Estate (1993) Ltd.	22.2

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

(4) Please refer to Legal Proceedings.

Significant Developments Since The End of Last Fiscal Year

In January 2003, the Company entered into an agreement for the sale of its holdings in Carmel Containers Systems Ltd., a packaging manufacturer based in Israel (Carmel), for approximately $3.5 million. The sale of Ampal s shares of Carmel is contingent upon Carmel s acquisition of another packaging company, Best Carton Ltd., as well as obtaining other legal authorizations and regulatory approvals.

In February 2003, the Company made a $0.2 million loan to Netformx Ltd., a developer and marketer of network design, analysis and simulation tools.

In February 2003, the Company invested $0.3 million in Star Management of Investments No.II (2000) L.P. Following this investment, the Company s investment commitment is $2.825 million.

In March 2003, the Company invested $0.7 million in Shellcase, Ltd., the principal business of which is the packaging process of semiconductor chips. Following this investment, the Company s equity interest in Shellcase increased to 14.1%.

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Telecommunications

MIRS COMMUNICATIONS LTD. (MIRS)

MIRS is the largest investment in Ampal s history. On January 22, 1998, the Company completed its purchase from Motorola Israel of a one-third interest in the assets of a new wireless communications service provider, MIRS Communications Ltd. (MIRS) for $110 million. In March 1998, the Company transferred its interest in MIRS to a limited partnership. A wholly owned Israeli subsidiary of Ampal is the general partner of the partnership and owns 75.1% of the partnership. The limited partners of the partnership reimbursed the Company for their pro-rata share of expenses incurred by the Company in connection with the original purchase. MIRS, which is one-third owned by the partnership and two-thirds owned by Motorola Israel, operates a fully integrated wireless voice and data communication services digital and analog public-shared two-way radio systems. The wireless communication network is based on iDEN(TM) integrated wireless communication technology, a unique radio technology, developed by Motorola, and provides an integrated service platform of cellular, two-way radio and wireless data services. These services are targeted primarily to commercial customers.

The main goal of MIRS is to provide cellular service to the commercial, governmental, public and private sectors according to quality standards set by Motorola, in order to give a full and satisfying solution to all wireless communications needs. MIRS has over 240,000 subscribers mainly in the commercial, governmental, municipal, security and military sectors. MIRS has strongly positioned itself in the commercial sector, announcing an aggressive pricing strategy, resulting in an increase in its customer base. The Israeli cellular commercial sector consists of 960,000 subscribers out of which 215,000, or more than 22% of the sector, are MIRS subscribers.

On February 5, 2001, MIRS was granted a full general operator license by the Israeli Ministry of Communications for portable radio and telephone services through its cellular system. This license is similar to the three existing cellular licenses previously granted to other Israeli operators. The major advantages of this license are that MIRS can now charge for airtime usage for incoming calls and an interconnect agreement with Bezek, Israel s local telephone provider. As part of the license, MIRS will be required to pay royalties to the Government of Israel and be subject to certain quality of service measurements to comply with industry standards. In connection with the issuance of the license, MIRS is obligated to make a preliminary payment to the Ministry of Communications in the amount of NIS 17,600,000 ($3.8 million) plus accrued interest. In addition, during the ten year period beginning July 1, 2001, MIRS will make quarterly payments to the Ministry of Communications in an amount equal to 1.3% of its income which is subject to royalties. Subsequent to the receipt of its license, MIRS launched a new brand, AMIGO , which mainly targets the consumer market.

Energy

GRANITE HACARMEL INVESTMENTS LTD. (GRANITE)

Granite Hacarmel Investments Ltd. (Granite) is one of Israel s largest holding companies. Granite was established in 1981 and went public on the Tel Aviv Stock Exchange in 1992.

Granite owns and controls the following major companies: Sonol Israel Ltd. (Sonol), Tambour Ltd. (Tambour) and Supergas Israel Gas Distribution Company Ltd. (Supergas) which are all well recognized as national brand names with national marketing and distribution networks in Israel. In addition, Granite owns Granite Hacarmel Holdings which is engaged in real estate, Allied Oils & Chemicals which produces lubricants and greases and Granite Hacarmel Development Holding, which deals with other activities within Granite. Through its subsidiaries, Granite markets and distributes refined petroleum products, liquefied petroleum gas, chemicals, paints, lubricants, greases and related products, as well as water purification and desalination, oil and gas exploration, real estate investments, and tourism projects.

Granite s strategy is to enhance the values of its assets and achieve a higher rate of return on shareholder s equity by: supporting the growth of its existing energy business units; participation in new projects in the energy industry, such as independent power station, water purification and desalination plants and other infrastructure; synergizing activities with international partners in energy, commerce and industry; investments in specified new business areas such as income producing real estate, industry and commerce; developing new chemical products for sewage and other pollution treatment; and positioning itself as the Israeli leader in the paints and adhesive market.

Ampal s 20.4% stake in Granite had a market value of approximately $36.5 million as of December 31, 2002 compared with a carrying value of $24.6 million. Ampal s stake in Granite as of December 31, 2001 had a market value of approximately $40.1 million compared with a carrying value of $25 million. Two of the Company s representatives are members of the board of directors of Granite and one representative is a member of the executive committee of the board of directors of Granite.

Sonol Israel Ltd.

Sonol is a marketer and distributor of refined petroleum products, lubricants and related products. Sonol is one of the three largest Israeli distributors of refined petroleum products with a chain of 205 branded public service stations as of December 31, 2002, (of which Sonol controlled companies operate 106), agencies (virtually all owned or controlled subsidiaries) and facilities located throughout the country serving all sectors of the economy. Sales to the largest customers are on a direct basis, while other customers are serviced through the network of agencies and dealers. A Sonol subsidiary operates a fleet of tankers having a capacity of over 1 million liters.

Sonol markets a full line of branded lubricants, greases and related products which are blended and packaged in the Company s Haifa plant based on formulations provided by major international lubricant manufacturers. Distribution is by company-owned vehicles.

Sonol owns substantial real estate assets, some of which have significant development potential beyond present usage. A 23,000 square meter, 30-story office tower is presently under construction in Tel Aviv.

Tambour Ltd.

During 2001, Granite acquired 100% of Tambour for approximately $125,000,000. Tambour is the largest supplier of a complete range of water, solvent and powder based paints products in Israel and serves a broad spectrum of customers including wholesalers, retailers, building contractors, factories, workshops and government agencies.

Through Tambour Ecology Ltd. and other invested companies, Granite is engaged in the treatment of water and sewerage, water desalination, production and distribution of industrial lubricants, treatment of metals and the production of glues, polymer emulsions, additives for building, printing inks and cleaning and disinfecting materials for the institutional and industrial market.

Supergas Israel Gas Distribution Company Ltd.

Supergas is a leading supplier of liquified petroleum gas in Israel. The company sells and distributes gas to the private, commercial, agricultural, industrial and institutional sectors, providing full solutions for the planning and supply of gas related equipment to all sectors. The company and its agents serve over 400,000 clients nationwide.

Granite Hacarmel Holdings

Granite Hacarmel Holdings was established in 1993 to implement Granite s strategy of investing resources in real estate and development. The company aims to generate a steady stream of cash flow by renting prime industrial, commercial and office properties to premium tenants and to achieve higher returns on investment and equity. The company has significant holdings in a number of projects that have been completed or are still in progress.

Allied Oils & Chemicals

Allied Oils & Chemicals owns a blending facility in Haifa operated by Sonol. The facility produces a wide variety of automotive, marine and industrial lubricants and greases. Production of approximately 150 different products is based on formulations that have been approved by Sonol for marketing in Israel and overseas. The company has know how agreements with international companies such as Mobil, BP, Lubrizol, Ethyl, Infinium and others.

High Technology

BABYLON LTD. (BABYLON)

Babylon-Pro, Babylon s single click translation, information & conversion tool enables users to instantly obtain translations in most spoken languages, information from thousands of glossaries and conversions of currencies, measurements & time zones. There are currently 19 million registered users of Babylon-Pro.

As of December 31, 2002, the Company had invested a total of $0.5 million in Babylon and had written off $0.33 million of this investment. As of December 31, 2002, the Company held a 1.6% equity interest in Babylon.

BRIDGEWAVE COMMUNICATIONS, INC. (BRIDGEWAVE)

BridgeWave develops and markets wireless access systems that extend the reach of broadband networks, allowing service providers to reach untapped subscribers with high-margin, high-bandwidth services.

As of December 31, 2002, the Company had invested an aggregate of $2.8 million in BridgeWave, constituting a 6% equity interest. In 2002, the Company wrote off its investment in BridgeWave.

CUTe LTD. (CUTe)

CUTe is a pioneer in the development and deployment of integrated wire-line/wireless/satellite video security systems. CUTe s solutions are ideal for mobile emergency response in government and public safety applications, transportation control, remote monitoring of critical infrastructure, as well as security systems in airports, seaports, borders and national security facilities.

In June 2000, the Company entered into a share purchase agreement pursuant to which the Company undertook to invest $1.75 million in CUTe, in four equal consecutive quarterly interest bearing installments. All four installments have been paid. The Company holds 20% of the issued share capital of CUTe. As of December 31, 2002, CUTe s value in the Company s books was $0 due to its equity losses.

ENBAYA INC. (ENBAYA)

During 2002, Enbaya ceased operations and the Company wrote off its entire $2.0 million investment.

IDENTIFY SOLUTIONS LTD. (IDENTIFY)

Identify (formally Mutek Ltd.), develops and markets the AppSight solution suite based on Identify s Black Box technology that captures, communicates and identifies the root cause of failures in applications. AppSight is used throughout the application life cycle to increase application reliability and availability and reduce application deployment and support costs.

As of December 31, 2002, the Company had invested $3.7 million in Identify, and had written off $1.1 million of its investment. As of December 31, 2002, the Company holds a 6.5% equity interest in Identify.

MODEM ART LTD. (MODEM-ART)

Modem-Art specializes in developing system-on-a-chip solutions for wideband and broadband communication systems focusing on baseband processors for 3G terminals/handsets. As of December 31, 2002, the Company had invested $2.0 million in Modem-Art for an equity interest of 5.2%. During 2002, the Company wrote off $1.0 million of its investment in Modem-Art.

NETFORMX, LTD. (NETFORMX)

Netformx develops and markets the award winning CANE(R) family of network design, analysis and simulation tools.

Netformx s strategy is to help its customers design and maintain sophisticated computer networks. Using CANE, network and system integrators and network managers design, simulate and analyze efficient, reliable networks quickly and easily. CANE is designed to resolve network chaos and manage the accelerating pace of network change while reducing network equipment, consulting and staff costs.

During 2001, Netformx developed a new line of web-based products, which it has sold to Cisco Systems, Nortel Networks and SBC Communications. In addition, due to slower than expected growth in its markets, Netformx reduced its work force and expenses during 2001 to adjust to current market conditions.

As of December 31,2002, the Company had a 19.6% equity interest in Netformx, directly and indirectly through Ophir. As of December 31, 2002, the Company had written off all of its investment in Netformx.

OBLICORE INC. (OBLICORE)

Oblicore provides software that aligns information technology systems with business obligations and service level agreements, thereby assuring revenue as well as reducing costs. By correlating the contractual commitments and service level agreements with real-time enterprise data, Oblicore Guarantee(TM) provides the operational visibility and the peace of mind that comes with consistently meeting obligations in an efficient and documented manner.

Oblicore s products are used by large enterprises and service providers to manage existing obligations as well as create new, profitable ones. Oblicore is headquartered in Germantown, Md. with additional offices in Europe and the Middle East. As of December 31, 2002, the Company had written off all of its investment of $2.2 million.

OPHIRTECH LTD. (OPHIRTECH)

Ophirtech, the Company s 42.5%-owned affiliate, has invested in 20 companies in the high -technology sector. During 2002, Ophirtech invested $0.9 million in start-up companies. In addition, in 2002, Ophirtech made provisions for impairment of the value of its start-up investments in the amount of $7.8 million. At December 31, 2002, the book value of Ophirtech s start - up investments was $7.3 million.

Included among Ophirtech s investments are the following companies:

CelvibeE Ltd. (Celvibe)

Celvibe, which developed video technologies for the internet and mobile users, ceased operations in 2003 and is undergoing a liquidation process.

Cerel Ceramic Technologies Ltd. (Cerel)

Cerel is using its proprietary Electrophoretic Deposition (EPD) process to develop production technology and design tools for Functional Electronic Packages (FEP).

As of December 31, 2002, Ophirtech had invested $0.7 million in Cerel for a 14.2% equity interest.

Elpas Ltd. (Elpas)

Elpas develops local positioning-system solutions for hospitals and buildings. Through its patented wireless infra-red technology, Elpas is positioned to deliver solutions that change the way personnel, patients, visitors and equipment are managed indoors. As of December 31, 2002, Ophirtech had written off its investment of $1.7 million. Ophirtech s equity interest in Elpas is 11.8%. Elpas is in the process of merging with another company in the technology field.

Expand Networks Ltd. (Expand)

Expand developed caching technology designed to accelerate communications over diverse network infrastructures and improve broadband efficiency, thereby yielding savings in communications infrastructure costs. Expand extends the performance benefits of caching beyond Web traffic to all enterprise data. The result is a 100% - 400% network performance increase that supports the deployment of bandwidth-intensive applications.

As of December 31, 2002, Ophirtech had written off $1.3 million of its $2.9 million investment in Expand. Ophirtech s equity interest in Expand is 11.2% as of December 31, 2002.

Pelican Security Ltd. (Pelican)

Pelican is a client-side Internet security vendor that provides solutions that proactively protect e-businesses from Internet threats. Pelican s flagship product line, Pelican SafeTnet(TM), protects organizations from threats such as destructive Internet viruses and hackers who attempt to exploit the security weaknesses of the Windows client to gain unauthorized access to vital corporate resources. As of December 31, 2002, Ophirtech had invested $1.6 million for a 15.7% equity interest in Pelican, of which $1.4 million had been written off. In March 2003, Pelican ceased operations and sold its intellectual property rights to Microsoft Corporation for a total amount of $800,000.

Praxell, Inc. (Praxell)

Praxell has developed a payment system (Praxicard), which provides safe, secured and anonymous online purchases. Praxicard also enables new segments like teenagers and travelers that lack credit cards, which have been largely excluded from online purchasing, to buy online. The system, completely based on Oracle systems, provides Internet users with comfortable, flexible and secured payment solutions.

As of December 31, 2002, Ophitech had written off its investment of $0.7 million in Praxell.

StoreAge Networking Technologies Ltd. (StoreAge)

StoreAge provides cost effective storage solutions to the enterprise market with a focus on StoreAge Area Network (SAN) architecture. StoreAge makes a device that allows users to prioritize information contained on corporate storage networks and manage the data more efficiently, using virtualization technology to accomplish the gain in efficiency.

As of December 31, 2002, Ophirtech had invested $3.0 million in StoreAge for a 10.9% equity interest.

Viola Networks Ltd. (Viola)

Viola, (formerly Omegon Networks Ltd.), is developing a software system permitting quick and continuous identification of difficulties and interruptions in various communications networks.

As of December 31, 2002, Ophirtech had invested $3.0 million and had written off $1.9 million of such investment. Ophirtech s equity interest in Viola is 16.0% as of December 31,2002.

PEPTOR LTD. (PEPTOR)

Peptor is a biopharmaceutical company that applies proprietary rational drug design and combinatorial peptidomimetic technology to heat shock protein 60 (hsp60) to develop immunotherapeutic vaccines that can modulate the immune system and thereby treat autoimmune diseases and certain cancers.

As of December 31, 2002, the Company s equity interest in Peptor was 0.5%, and the net investment was $0.2 million.

POWERDSINE LTD. (POWERDSINE)

PowerDsine is the market leader of Power over LAN , a technology that integrates data, voice and power on standard Ethernet infrastructure. As one of the founding members of the IEEE 802.3af Task Force, PowerDsine is at the forefront of setting the global standard for remotely powering Ethernet devices over LAN infrastructure. Since Power over LAN s introduction to the market in 1998, PowerDsine has established business relationships with over nine major communications companies worldwide.

PowerDsine sells its products to over 100 customers in North America, Europe, Israel and the Asia Pacific region. PowerDsine has established business relationships with over nine major communications giants, including: Nortel Networks, Siemens, Lucent Technologies,

Ericsson, Fujitsu, NEC, Proxim, 3Com, Alcatel and Avaya.

As of December 31, 2002, the Company s total investment in PowerDsine was $6 million and its equity interest was 8.1%.

SHELLCASE LTD. (SHELLCASE)

ShellCase has developed a proprietary, patented wafer level chip size packaging (CSP) technology for silicon devices using a wafer-level process. Hand-held electronics, wireless communication products, ID technologies, digital imaging and light detection applications in consumer goods, smart cards and medical disposables are just part of the growing list of applications that benefit from the unique properties of ShellCase s technology. ShellCase is publicly traded on the Canadian Venture Exchange (CDNX).

In January 2002, the Sanyo Corporation invested $1 million in ShellCase. As of December 31, 2002, the Company s investment of $5.5 million in ShellCase represented a 14.0% equity interest. As of December 31,2002, the Company had written off $2.3 million of its investment in Shellcase.

SHIRON SATELLITE COMMUNICATIONS (1996) LTD. (SHIRON)

Shiron is engaged in the development, manufacturing and marketing of a satellite communication product known as InterSKY(TM). Shiron provides easily deployable two-way, always-on broadband satellite communications to corporate businesses, Internet Service Providers (ISP) and Small Office/Home Office (SOHO) in places where broadband infrastructure is insufficient or does not currently exist. Unlike traditional satellite solutions, which provide only a one-way connection, InterSKY(TM) provides a broadband connection for both inbound and outbound signals. Shiron s systems are intended to meet the communication needs of developing countries, as well as the demands of technologically developed countries, for advanced high-speed two-way transmission.

As of December 31, 2002, the Company had invested $1.8 million in Shiron and had made a $0.3 million loan to Shiron. The Company s equity interest in Shiron is 9.8%. As of December 31, 2002, the Company had written off $1.8 million of its investment in Shiron.

SMART LINK LTD. (SMART LINK)

Smart Link is a developer and supplier of software-based communications products that provide Internet access to the residential markets. Its proprietary technology enables customers to replace traditional hardware-based communications products with high-quality, user-friendly software-based solutions that are smaller and less costly. Products include software and chips that are easily integrated into personal computers and information appliances. As of December 31, 2002, the Company had invested $2.9 million in Smart Link Constituting a 13.6% equity interest in such company.

STAR MANAGEMENT OF INVESTMENTS NO. II (2000) L.P. (STAR)

As of December 31, 2002, the Company had invested $1.875 million in Star, a venture capital fund that focuses on investments in communications, Internet infrastructure, enterprise software, industrial technologies and medical devices, for a 10% interest in Star. The Company has committed to invest an additional $3.125 million in Star. During 2002, the Company had written off $0.6 million of its investment in Star.

VISIONCARE OPHTHALMIC TECHNOLOGIES LTD. (VISIONCARE)

VisionCare develops and markets proprietary ophthalmic implantable products that give patients better and more natural visual function with improved quality of life. VisionCare s products meet the growing demand for innovative devices to treat age-related eye disorders, affecting tens of millions of people. VisionCare s first product is the patented Implantable Miniaturized Telescope (IMT), a solution for macular

degeneration, a disease which destroys central vision. As of December 31, 2002, the Company had invested $0.7 million and had written off $0.3 million, and its equity interest in VisionCare is 2.5%.

XACCT TECHNOLOGIES LTD. (XACCT)

XACCT provides a network data management platform for global communications service providers such as network backbone providers, mobile operators, cable operators, and managed services providers. XACCT s carrier-class Network-to-Business (N2B) platform helps make service providers profitable by harnessing network information to create new value-based services and lower operational costs. XACCT offers the industry s first and only platform that enables real-time data capture and enhancement; seamless integration with any business or operations application; and instantaneous, flow-through service provisioning.

As of December 31, 2002, XACCT had licensed its business software to approximately 80 network service providers. XACCT s customers include Bell Canada (NYSE:BCE), Boeing (NYSE: BA), British Telecom (NYSE:BT), Broadwing (NYSE:BRW), Cable & Wireless (NYSE:CWP), COLT (NASDAQ:COLT), Global One, Genuity (NASDAQ:GENU), Motorola (NYSE: MOT), Omnitel Vodafone, Siemens (NYSE:SIE), Teleglobe, (NYSE:BCE), TELUS (NYSE: TU), TV Cabo, and Verio (NYSE:NTT). In addition, XACCT has developed strategic alliances or collaborative relationships with a group of over 100 system integrators, value-added resellers, networking infrastructure vendors and software applications vendors.

As of December 31, 2002, the Company s total investment in XACCT was $12.8 million and its equity interest was 16.9%.

XPERT INTEGRATED SYSTEMS LTD. (XPERT)

Xpert is a leader in systems and architectural design and implementation for IP-based service providers. As of December 31, 2002, the Company had invested $2.75 million in Xpert, and its equity interest is 12.7%.

Real Estate

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

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AM-HAL LTD. (AM-HAL)

Am-Hal is a wholly-owned subsidiary of the Company. Am-Hal develops and operates luxury retirement centers for senior citizens.

In March 1992, the first center was opened in Rishon LeZion, a city located approximately 10 miles south of Tel-Aviv. This center, of about 120,000 square feet, includes 149 self-contained apartments (of which 126 were occupied on December 31, 2002), an 80-bed nursing care ward, a 24-bed assisted-living ward (which had 100% occupancy on December 31, 2002), a swimming pool, a health care center and other recreational facilities. The nursing care ward is leased to a non-affiliated health care provider until 2006. Rental payments are based upon the profits of the nursing care ward, with a minimum rent of $350,000 per year.

The aggregate cost of the center in Rishon LeZion was approximately $21 million and was financed principally by loans made or guaranteed by the shareholders and refundable tenants deposits. All of the loans have been repaid.

Due to the success of this project and the increased demand for such services, Am-Hal has entered into a joint venture agreement with, among others, the owner of a property consisting of 2.5 acres of land in Hod Hasharon, a city located approximately 7 miles north of Tel Aviv, for its second retirement center. This center, which is approximately 250,000 square feet, was opened in June 2000, and includes 235 self-contained apartments, a 33-bed nursing care ward and a 22-bed assisted-living ward. As of December 31, 2002, 200 of the apartments had been sold, the nursing care ward had a 76% occupancy, and the assisted-living ward had a 50% occupancy. The total cost of the project was approximately $42 million financed principally by bank loans and refundable deposits from tenants. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information regarding these loans.

INDUSTRIAL BUILDINGS CORPORATION LTD. (INDUSTRIAL BUILDINGS)

Industrial Buildings (TASE), Israel s largest owner/lessor of industrial property is engaged principally in the development and construction of buildings in Israel for industrial and commercial use and in project management. Industrial Buildings carries out infrastructure development projects for industrial and residential purposes, principally for a number of government agencies and authorities. Industrial Buildings hires and coordinates the work of contractors, planners and suppliers of various engineering services.

Ampal s ownership interest in Industrial Buildings in held through its interest in Ophir. Ophir s interest in Industrial Buildings, as of December 31, 2002, was 11.7%. From January through February 2002, Ophir sold an aggregate of 1,027,653 shares of Industrial Buildings for an aggregate amount of NIS 6.4 million ($1.5 million), which represented a pre-tax gain of $200,000.

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

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

Ampal (Israel), a wholly-owned subsidiary of Ampal, owns an approximately 40,000 square foot commercial property located in Tel Aviv which houses its principal offices. Total rental income in 2002 was $0.3 million. Ampal (Israel) also acts as a holding company for other investments discussed elsewhere in this report.

AMPAL DEVELOPMENT (ISRAEL) LTD. (AMPAL DEVELOPMENT), NIR LTD. (NIR).

NIR, a wholly-owned subsidiary of Ampal, owns commercial properties located in Israel aggregating approximately 6,000 square feet for which it received approximately $0.3 million in rental income in 2002.

Ampal Development, a wholly owned subsidiary of the Company, issued debentures which are publicly traded on the TASE. An aggregate of approximately $5.4 million of these debentures were outstanding as of December 31, 2002. Ampal Development has deposited funds with Bank Hapoalim sufficient to pay all principal and interest on these debentures.

OPHIR HOLDINGS LTD. (OPHIR)

Ophir is a holding company that owns interests in real estate companies and is owned 42.5% by the Company. The Company and Polar Investments, which owns 57.5% of Ophir, are parties to a shareholders agreement regarding joint voting, directorships and rights of first refusal with respect to Ophir.

Ophir owns real estate properties located in Israel, aggregating approximately 85,000 square feet.

Ophir owns two acres of land in an industrial park in Netanya, Israel together with an unrelated party. These parties entered into a joint venture agreement regarding this site on which they developed a 326,000 square foot building (including parking) for both industrial and commercial use. Ophir s share of the property and joint venture is 70%. Almost all of the building (95.5% of main area) is leased. Ophir s revenues from the lease of the building were $2.9 and $3.2 million in 2002 and 2001, respectively.

Ophir owns a 22.2% interest in the Shmey-Bar group of companies (Shmey-Bar). Shmey-Bar acquired 2.3 million square feet of real estate properties from Hamashbir Hamerkazi, Ltd. (Hamashbir Hamerkazi) for $27.7 million. In the same transaction, Shmey-Bar received an option to acquire, for $26.3 million, an additional 700,000 square feet of real estate properties from Hamashbir Hamerkazi. These properties are situated in various locations in Israel. Ophir s interest in Shmey-Bar was acquired with a nominal investment accompanied by a $2.6 million shareholder s loan.

Ophir owns a 50% interest equity in Lysh The Coastal High-way Ltd. (Lysh). Lysh has a 50% holding in Beit Herut-Lysh Development Company Ltd. (BHL), which is constructing a 180,000 square foot commercial project for rental near Moshav Beit Herut on land owned by the Israeli Land Authority. Through December 2002, Phase A of this project, consisting of approximately 100,000 square feet, had been constructed at a construction cost of $18 million, including the cost of the land. Ophir s share in Lysh is approximately 25% (its share in the project being approximately 12.5%). As of December 31, 2002, the investment in Lysh of $0.9 million was written off.

Ophir has also undertaken to provide guarantees in an amount equivalent to 25% of the construction costs. As of December 31, 2002, BHL had taken out bank loans of approximately $15.6 million, by drawing on a credit line extended by a financial institution in connection with the project.

In September 1995, Ophir acquired a 10% interest in a joint venture which had agreed to purchase 4.4 million square feet of land near Haifa for approximately $15 million, on which the parties intend to develop a commercial real estate project for rent. Ophir has obligated itself to invest up to $1.5 million in the first stage of this project and its share of development costs is estimated to be as much as $17 million.

During December 2002, Ophir signed an agreement to sell four properties for a total purchase price of $5.9 million (net income $4.2 million). The gain will be recognized during the first quarter of 2003.

BAY HEART LIMITED (BAY HEART)

Bay Heart was established in 1987 to develop and lease a shopping mall (the Mall) in the Haifa Bay area. Haifa is the third largest city in Israel. The Mall, which opened in May 1991, is a modern three-story facility with approximately 280,000 square feet of rentable space. The Mall is located at the intersection of two major roads and provides a large mix of retail and entertainment facilities including seven movie theaters. Approximately 37,500 square feet of the Mall are occupied by Supersol Ltd., one of the two largest Israeli supermarket chains, and the parent of a co-investor in Bay Heart. As of December 31, 2002, approximately 78% of the Mall was occupied. The total cost of the Mall was approximately $53 million, which was financed principally with debt instruments. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information regarding the debt financing of Bay Heart. A train station on the west side of the Mall was completed on September 2001. A transportation complex, in conjunction with a subsidiary of Egged Bus Company, was opened in January 2002. The Company owns 37% of Bay Heart. Due to the slowdown in the Israeli economy, the company is considering a financial structuring and a renovation of the Mall.

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

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

Ampal historically believed that it owned 50% of the equity of Etz Vanir and Yakhin Mataim and that the remaining 50% was owned by an unrelated company, Yakhin Hakal Ltd. (Yakhin Hakal), which manages their operations. In February 1995, Yakhin Hakal and its affiliates commenced a legal proceeding seeking to cause Etz Vanir and Yakhin Mataim to redeem perpetual debentures owned by Ampal and to require Ampal to surrender all of its preferred shares of Etz Vanir and Yakhin Mataim for their par value, which is nominal.

On July 27, 1998, a Tel Aviv District Court ruled in favor of Yakhin Hakal, the manager and co-owner of the Company s 50%-owned affiliates Etz Vanir and Yakhin Mataim. The judge s decision allows Etz Vanir and Yakhin Mataim to redeem debentures owned by the Company for approximately $0.8 million and to require the Company to surrender all of its preferred shares of Etz Vanir and Yakhin Mataim for their par value. The Company presents its investment in Etz Vanir at the par value of its debentures See Item 3. Legal Proceedings for a description of this litigation and various appeals filed by the Company in this regard.

Leisure-Time

CORAL WORLD INTERNATIONAL LIMITED (CORAL WORLD)

Coral World, which is 50%-owned by the Company, owns and controls three marine parks in Eilat (Israel), Perth (Australia) and Maui (Hawaii).

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

and retail outlets are a significant revenue source.

Coral World s parks hosted approximately 925,000 visitors during 2002. Coral World has approximately 260 full-time equivalent positions as of December 31, 2002.

Coral World has entered into a joint development project for a new marine park in Palma de Majorca. Coral World has also entered into a joint venture called Vista Historica , which participated in a tender for the development of a multimedia attraction near the ancient city of Pompeii and which is in the process of developing a new Vista Historica attraction in the city of Prague.

COUNTRY CLUB KFAR SABA LIMITED (KFAR SABA)

Kfar Saba operates a country club facility (the Club) in Kfar Saba, a town north of Tel Aviv. Kfar Saba holds a long-term lease to the real estate property on which the Club is situated. The Club s facilities include swimming pools, tennis courts and a clubhouse. The Club currently is seeking to obtain building permits for an additional 30,000 square feet of commercial development on the Club grounds.

The Club, which has a capacity of 2,000 member families, had approximately 1,800 member families for the 2002 season. The Company owns 51% of Kfar Saba.

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

On December 31, 1995, the Company purchased from Kfar Saba its 50% interest in Hod Hasharon for $1.4 million. Hod Hasharon operates a similar country club facility (the H.H. Club) in Hod Hasharon, a town adjacent to Kfar Saba. The H.H. Club, which opened in July 1994 and has a capacity of 1,600 member families, has operated at capacity for the past three years. In 2002 the H.H Club operated above capacity with 1,880 members families. In 2002, the H.H. Club repaid owner s loans of $0.1 million to each of the partners. The H.H. Club is expected to continue repaying owner s loans in 2003 in the amount of $0.3 million to each of the partners.

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Capital Markets And Other Holdings

AMPAL INDUSTRIES (ISRAEL) LTD. (AMPAL INDUSTRIES)

Ampal Industries, a wholly-owned subsidiary of Ampal, holds interests in various investee companies described in the high-technology section in this report. Ampal Industries also has a portfolio of marketable securities which was valued at approximately $18.4 million at December 31, 2002, which includes investments valued at approximately $11.2 million in Blue Square. In addition, Ampal Industries owns 50% of a commercial building located in Migdal Ha'emek. In 2002, it received approximately $0.1 million in rental income for this property.

ALVARION LTD. (ALVARION)

Alvarion (Nasdaq: ALVR) (formerly BreezeCOM Ltd.) is a leading provider of point-to-multipoint, wireless broadband networking infrastructure solutions, used by telecommunication carriers, service providers and private network operators worldwide

As of December 31, 2002, the Company had invested $4.9 million in Alvarion. The Company holds 816,475 shares of Alvarion, which represent an 1.5% interest in Alvarion as of December 31, 2002.

The Company recorded charges of $2.5 million in its statement of income as unrealized loss on investments.

AREL COMMUNICATIONS AND SOFTWARE LTD. (AREL)

The Company purchased 396,000 shares of Arel (NASDAQ: ARLC) in February 2000 for approximately $6 million. Arel s core business targets the emerging Interactive Distance Learning market, where it believes that it is positioned as an innovative technology leader. Arel s subsidiary, ArelNet Ltd. (ArelNet), is a provider of high quality Internet Protocol (IP) telephony solutions, developing technology solutions for real-time voice and fax over IP networks and enhanced services. Arel completed the spin-off of its holdings in ArelNet in June 2000, and the Company received 119,674 shares of ArelNet.

As of December 31, 2002, the Company owned 398,100 and 119,674 shares of Arel and ArelNet, respectively, which had a combined market valuation of $0.1 million. The Company s equity interest in Arel and ArelNet at December 31, 2002 was 3.0%.

BLUE SQUARE ISRAEL LTD. (BLUE SQUARE)

Blue Square is a publicly traded company on the Tel Aviv Stock Exchange and New York Stock Exchange. In June 1999, the Company invested $24 million to purchase 1,500,000 shares of Blue Square, representing 3.9% of Blue Square, at $16 per share.

As of December 31, 2002, the investment in Blue Square had a market value of $11.2 million. Primarily due to the length of the time and extent to which the market value has been less than cost such decline has been accounted for as other than temporary loss. The Company recorded charges of $12.8 million in its statement of income as unrealized loss on investments.

The largest stockholder in the Blue Square initiated a process under which it plans to sell all of its holdings (78.1%) in the Blue Square ordinary shares.

The sale is carried out through a tender which is anticipated to be completed by the end of May 2003.The Company believes that the purchase price from this tender process will be higher than the market price.

CARMEL CONTAINER SYSTEMS LIMITED (CARMEL)

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

The Company entered into an agreement in January 2003 pursuant to which Ampal and its subsidiary, Ampal Enterprises Ltd. (Ampal Enterprises), will sell their shareholdings in Carmel. Ampal will sell in this transaction 18,000 ordinary shares of Carmel and Ampal Enterprises will sell another 504,000 ordinary shares of Carmel, at a price per share of $6.75 for an aggregate purchase price of $3,523,500.

The consummation of the aforementioned transaction is contingent upon certain conditions, including the consummation of a merger transaction between Carmel and Best Carton Ltd. (Best) pursuant to which all shares of Best will be purchased by Carmel in consideration of shares of Carmel which will be issued to Best s shareholders, and the authorizations required by law for the aforementioned transaction.

COMPUGEN LTD. (COMPUGEN)

Compugen (NASDAQ: CGEN) is a pioneer in the merging of computational technologies with biology, chemistry and medicine to enhance drug discovery and development. This merging of computational technologies provides high value products and services to leading biotechnology and pharmaceutical companies and for in-house discovery. As of December 31, 2002, the Company held 357,000 shares of Compugen, representing a 1.4% equity interest.

The Company recorded charges of $0.5 million in its statement of income as unrealized loss on investments.

EPSILON INVESTMENT HOUSE LTD. (EPSILON) AND RENAISSANCE INVESTMENT COMPANY LTD. (RENAISSANCE)

The Company had invested $1.5 million for 20% of Epsilon and its affiliate, Renaissance as of December 31, 2002. Epsilon is an investment bank which provides portfolio management services and Renaissance provides underwriting services in Israel through its subsidiaries.

EMPLOYEES

As of December 31, 2002, Ampal had two employees, Ampal Industries (Israel) Ltd. had 16 employees, Am-Hal Ltd. (a wholly owned subsidiary of Ampal) had 165 employees and Country Club Kfar Saba Ltd. (owned 51% by the Company) had 108 employees. Relations between the Company and its employees are satisfactory.

CONDITIONS IN ISRAEL

Most of the companies in which Ampal directly or indirectly invests conduct their principal operations in Israel and are directly affected by the economic, political, military, social and demographic conditions there. A state of hostility, varying as to degree and intensity, exists between Israel and the Arab countries and the Palestine Liberation Organization (the PLO). Israel signed a peace agreement with Egypt in 1979 and with Jordan in 1994. Since 1993, several agreements have been signed between Israel and Palestinian representatives regarding conditions in the West Bank and Gaza. While negotiations have taken place between Israel, its Arab neighbors and the PLO to end the state of hostility in the region, it is not possible to predict the outcome of these negotiations and their eventual effect on Ampal and its investee companies. Since September 2000, there have been increased hostilities between the Israeli government and Palestinian groups. In addition, any military action taken against Iraq by the United States or other countries could further intensify hostilities between Israel and its Arab neighbors. It is possible that the situation may deteriorate further and may impact the value of Ampal and its investee companies. See -Economic and Financial Developments below and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the possible impact of this situation on the Company.

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

Economic and Financial Developments

Israel s economy has been in a recession since 2001. This recession resulted from, among other things, internal market weakness, the worldwide crisis in the High-Technology industry, and on Nasdaq in particular, as well as continuing hostilities between Israel and the Palestinians. The terrorist attacks on the United States of September 11, 2001, and the military action taken against Iraq by the United States and other countries have further intensified the global economic crisis, and such situations have also negatively impacted Israel s economy.

According to the Israeli Central Bureau of Statistics end-of-year publication, Israel s gross domestic product fell by 1% in 2002 following a decrease of 9% in 2001. This decrease is in contrast to the rapid growth in the Israeli economy evidenced from the second quarter of 1999 to the third quarter of 2000.

The global economic slowdown and the growing crisis in the High Tech industry have significantly influenced Israeli exports. In 2002, exports of goods and services fell by 5.4% in real terms following a larger decrease of 11.7% in 2001. In 2002, imports of goods and services dropped by 3% in real terms after falling by 4.5% in 2001.

Exports of goods and services and investments in fixed assets fell by high rates: 5.4% and 8.9%, respectively. For the first time in many years, a decrease of 0.6% was recorded in private consumptions due to the continued recession, the rise in unemployment and wage erosion.

In 2002, unemployment in Israel increased to 10.4%. The rate of unemployment in 2001 averaged 9.3%, as compared to 8.8% in 2000. This increase resulted mainly from the Hi-Tech crisis which brought about a wave of layoffs in this industry.

The inflation in 2002 was 6.5%, a considerable upward deviation from the targeted level of inflation. In 2001, the consumer price index rose by 1.4%, compared to the targeted inflation level of 2.5-3.5%, as determined by the government. In 2001 and 2000, actual inflation has been substantially lower than the target set by the government: in 2001, actual inflation was 0.9%, compared to a target of 3.5%; and in 2000, actual inflation was 0%, compared to a target of 3-4%.

Development in the money and capital markets during 2002 were affected by the 2% cut in the interest rate from 5.8% to 3.8% at the end of 2001. This measure led to a continuing depreciation of the shekel, which was accompanied by deterioration in the security situation and by a large budget deficit. Fears of financial instability grew in the course of the year: inflation and inflationary expectations rose, and bond yields reflected a crisis situation. The monetary policy reaction to these developments was delayed. Eventually, a combination of a large rise in the Bank of Israel's interest rate to 9.1% and the adoption of a program for reducing the budget deficit succeeded in stabilizing the economic system.

The shekel - dollar exchange rate, which averaged NIS 4.28 in December 2001, peaked to NIS 5 in June 2002. During the year as a whole, the shekel depreciated by 9.7 % against the dollar and by 14.2% against the currency basket (December average). On January 22, 2003 the exchange rate hit the level of NIS 4.90 to the dollar.

The following table sets forth, for the periods indicated, certain information with respect to the rate of inflation in Israel, the NIS/$exchange rate and the rate of devaluation of the NIS against the dollar:

Year Ended Dec. 31	Israel Annual Inflation Rate(1)	Closing Exchange Rate(2)	Annual Devaluation(3)	U.S. Annual Inflation Rate(4)
1994	14.5	3.018	1.1	2.6
1995	8.1	3.135	3.9	2.8
1996	10.6	3.251	3.7	3.3
1997	7.0	3.536	8.8	1.7
1998	8.6	4.160	17.6	1.6
1999	1.3	4.153	(0.2)	2.7
2000	0.0	4.041	(2.7)	3.4
2001	1.4	4.416	9.3	1.6
2002	6.5	4.737	7.3	2.0

(1) Israel Annual Inflation Rate is the percentage increase in the Israeli Consumer Price Index between December of the year indicated and December of the preceding year.
(2) Closing Exchange Rate is the rate of exchange of one United States dollar for the NIS at December 31 of the year indicated as reported by the Bank of Israel.
(3) Annual Devaluation is the percentage increase in the value of the United States dollar in relation to the NIS during the calendar year.
(4) U.S. Annual Inflation Rate is obtained by calculating the percentage change in the United States Consumer Price Index for All Urban Consumers, as published by the Bureau of Labor Statistics of the United States Department of Labor.

Israeli Investment

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

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

CERTAIN UNITED STATES AND ISRAELI REGULATORY MATTERS

SEC Exemptive Order

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

TAX INFORMATION

Israeli Taxation of Ampal

Ampal (to the extent that it has income derived in Israel) and Ampal's Israeli subsidiaries are subject to taxes imposed under the Israeli Income Tax Ordinance. For 2002, Israeli companies were taxed on their income at a rate of 36%.

On July 24, 2002, the Israeli Parliament enacted legislation (tax reform legislation) approving a tax reform bill based on a ministerial committee report published in June 2002. This legislation, which introduces fundamental changes in certain areas, generally became effective on January 1, 2003, although alterations in certain taxation areas will be introduced over a number of years and certain provisions will come into effect on other specified dates.

The tax reform legislation focuses, inter alia, on the following issues:

1. A transition from a primarily territorial based tax system to a personal based tax system of Israeli tax residents (which mainly applies on the Company's Israeli subsidiaries) had been introduced. Consequently, Israeli tax residents would be taxed on their worldwide income; and

2. The introduction of a reduced (25%) tax rate on capital gains. Capital gains arising from the sale of capital assets that had been purchased prior to January 1, 2003 shall be apportioned on a linear basis to the periods before and after same date, namely - the portion of the gain attributed to the period before January 1, 2003 shall be subject to 36% (for corporations), whereas the portion of the gain attributed to the period after January 1, 2003 shall be taxed at the preferential rate of 25%.

A tax treaty between Israel and the United States became effective on January 1, 1995. This treaty has not substantially changed the tax position of the Company in the United States or in Israel.

Ampal had income from interest, rent and dividends resulting from its investments in Israel. Under Israeli law, Ampal has been required to file reports with the Israeli tax authorities with respect to such income. In addition, as noted below, Ampal is subject to a withholding tax on dividends received from Israeli companies at a rate of either 25%, 15% or 12.5%, depending on the percentage ownership of the investment and the type of income generated by that company (as opposed to dividends payable to Israeli companies which are exempt from tax or subject to a tax rate of 25%, when stem from income generated out of Israel, or for the dividends paid by an approved enterprise to either residents or non-residents, the tax on which is withheld at a rate of 15%). Under an arrangement with the Israeli tax authorities, such income has been taxed based on principles generally applied in Israel to income of non-residents. Ampal has filed reports with the Israeli tax authorities through 2001 and has received final assessments with respect to such reports filed through 1996 (which final assessments are, under Israeli law, subject to reconsideration by the tax authorities only in certain limited circumstances, including fraud). Based on the tax returns filed by Ampal through 1996, it has not been required to make any additional tax payments in excess of the withholding on its dividends. In addition, under Ampal's arrangement with the Israeli tax authorities, the aggregate taxes paid by Ampal in Israel and in the United States on interest, rent and dividend income derived from Israeli sources has not exceeded the taxation which would have been payable by Ampal in the United States had such interest, rent and dividend income been derived by Ampal from United States sources. There can be no assurance that this arrangement will continue in the future. This arrangement does not apply to taxation of Ampal's Israeli subsidiaries.

Generally, under the provisions of the Israeli Income Tax Ordinance, taxable income paid to non-residents of Israel by residents of Israel is generally subject to withholding tax at the rate of 25%. However, withholding rates on income paid to United States residents by residents of Israel are subject to the United States-Israel tax treaty. No withholding has been made on interest and rent payable to Ampal under an exemption which Ampal has received from the income tax authorities on an annual basis. There can be no assurance that this exemption will continue in the future. The continued tax treatment of Ampal by the Israeli tax authorities in the manner described above is based on Ampal

continuing to be treated, for tax purposes, as a non-resident of Israel that is not doing business in Israel.

Under Israeli law, a tax is payable on capital gains of residents and non-residents of Israel. With regard to non-residents, this tax applies to gains on sales of assets either located in Israel or which represent a right to assets located in Israel (including gains arising from the sale of shares of stock in companies resident in Israel, and rights in non-resident entities that mainly represent ownership and rights to assets located in Israel, with regard to such assets). Since January 1, 1994, the portion of the gain attributable to inflation prior to that date is taxable at a rate of 10%, while the portion since that date is exempt from tax, while the remainder of the profit, if any, was taxable to corporations at 36% from 1996. Non-residents of Israel are exempt from the 10% tax on the inflationary gain derived from the sale of shares in companies that are considered Israeli residents if they choose to compute the inflationary portion of the gain based on the change in the rate of exchange between Israeli currency and the foreign currency in which the shares were purchased from the date the shares were purchased until the date the shares were sold.

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

Individuals and companies in Israel pay VAT at a rate of 17% of the price of assets sold and services rendered (according to a Temporary Order issued by the state of Israel on June 5, 2002 the VAT rate was increased to 18% for the period commencing on June 15, 2002 and ending on December 31, 2003). The Company can deduct VAT paid on goods and services acquired for the purpose of the business. Nir, a subsidiary of Ampal is considered a Financial Institute under the VAT Law, and as such is subject to wage and profit tax.

United States Taxation of Ampal

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

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

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

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

specially computed for this purpose).

FORWARD-LOOKING STATEMENTS

This Report (including but not limited to factors discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed elsewhere in this Report on Form 10-K) includes forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to the Company that are based on the beliefs of management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Report, the words anticipate, believe, estimate, expect, intend, plan, and similar expressions, as they relate to the Company or t management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events or future financial performance of the Company, the outcome of which is subject to certain risks and other factors which could cause actual results to differ materially from those anticipated by the forward-looking statements, including among others, the economic and political conditions in Israel, the Middle East, including the situation in Iraq, and in the global business and economic conditions in the different sectors and markets where the Company's portfolio companies operate.

Should any of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcome may vary from those described therein as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere described in this Report and other Reports filed with the Securities and Exchange Commission.

ITEM 2. PROPERTY

Ampal's corporate headquarters in Israel, which is owned by the Company, is located at 111 Arlozorov Street in Tel Aviv.

Ampal currently leases an office at 555 Madison Avenue in New York City from Rodney Company N.V., Inc. The lease period is seven years commencing on October 15, 2002. The annual rent for this lease is $114,968.

On October 15, 2002 the sublease contract under which Ampal subleased an office at 660 Madison Avenue in New York City from Cavallo Capital Inc. was terminated. In 2002, Ampal's total payments to Cavallo in connection with this sublease was $42,400.

Kfar Saba, which operates a country club in the town of Kfar Saba, occupies a 7-1/4 acre lot which will be leased for five consecutive ten-year periods, at the end of which the land returns to the lessor. The lease expires on July 14, 2038, and lease payments in 2002 totaled $147,401.

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

ITEM 3. LEGAL PROCEEDINGS

Yakhin Hakal

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

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

On October 15, 1998, the Company filed an appeal with the Israeli Supreme Court in Jerusalem. On September 30, 2001, the Supreme Court dismissed the appeal filed by the Company, on the grounds that the Company failed to timely produce a guarantee to cover Yakhin

Hakal's expenses in the appeal. On November 1, 2001, the Company filed a petition to the Israeli Supreme Court, contending that the dismissal of an appeal due to a delay in producing guarantees as part of the appeal is unreasonable and that the law allowing this should be changed. The petition was withdrawn by the Company on October 6, 2002.

On December 30, 2001, the Company filed a motion to allow it to file a new appeal in this case. The Supreme Court dismissed the motion on September 10, 2002.

On October 12, 2001, the Company filed a request with the Tel-Aviv District Court for a preliminary injunction and other remedies in relation to the validity and enforceability of Etz Vanir's and Yakhin Mataim's decisions to redeem the debentures owned by the Company and to require the Company to surrender all of its preferred shares in Etz Vanir and Yakhin Mataim. On January 28, 2002, the Tel Aviv District Court dismissed the request. On March 12, 2002, the Company filed an appeal with regard to this decision with the Israeli Supreme Court and the appeal is scheduled to be heard on April 9, 2003.

As of the date hereof, the Company cannot predict the outcome of these proceedings.

Granite

In February 2000, a petition was filed against Sonol, a wholly-owned subsidiary of Granite, Paz Oil Company Ltd. and Delek, the Israeli Fuel Company Ltd., in the Jerusalem District Court to allow a class action suit regarding fixing the retail price of diesel fuel. The lawsuit, if certified as a class action, will be in the amount of NIS 249.6 million ($53 million). Sonol's share is NIS 58.6 million ($12 million). Sonol denies the claim and, based on legal advice, Sonol s management has concluded that there is a reasonable chance that the suit will not be certified as a class action.

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In May 2001, a claim was filed in the Jerusalem District Court against Sonol, its subsidiary company, Sprint Motors Ltd., and four unrelated fuel companies by customers who purchased fuel products in filling stations, contending that the defendants charged an illegal service charge over a period of many years. The plaintiffs have requested the court to recognize their claim as a class action. The amount of the claim is NIS 5.30, however, should the court certify the class action, it will total approximately NIS 404 million ($85 million). From the claim, it is not clear as to what is Sonol's and its subsidiary's share of this amount. Granite's management and its legal counsel have advised the Company that it is unlikely that the claim will be certified as a class action.

In June 2001, a claim was filed by customers against Supergas (Granite's wholly-owned consolidated subsidiary), alleging that the defendant made illegal periodic charges to its customers. The plaintiff applied to the Tel Aviv District Court to recognize the claim as a class action in a total amount of NIS 133 million ($28 million). Supergas's management, based on legal advice, is of the opinion that it is more likely than not that Supergas will prevail in this case.

Three claims were lodged against Granite's formerly affiliated company and its past shareholders, which included Sonol, in the Haifa District Court. The total amount of the claims is approximately NIS 65 million ($14 million). The plaintiff's allegations concern the sale of fuel products pursuant to restrictive trade practices among the fuel companies and their affiliates. In the opinion of Sonol's legal counsel and the formerly affiliated company, the companies have a sound defense against the claims.

In 1999, Sonol filed a claim against one of its agencies for approximately NIS 40 million (approximately $8 million) in the Tel Aviv District Court, on account of an unpaid debt and damages caused to Sonol, alleging that the agency violated the terms of the agency agreement by dealing with one of Sonol's competitors. The agency, in turn, filed a counterclaim in the amount of approximately NIS 62 million (approximately $13 million), stating various causes, including a claim that the contractual agreement between it and Sonol is a restrictive agreement. In the opinion of Sonol's management, based primarily on the opinion of Sonol's legal counsel, the prospects of Sonol's claim against the agency relating to amounts owed to Sonol are good and, regarding the amount claimed for damages on account of the violation of the agency agreement, such amount is subject to deliberation by the court. Regarding the prospects of the agency's counterclaim, Sonol's legal counsel are unable, at this time, to estimate its prospects, insofar as it relates to the claim of a restrictive agreement. Should the claim of a restrictive agreement be rejected by the court, the prospects of the counterclaim will not be favorable. Currently, the dispute has been referred to mediation which was unsuccessful.

A class action was filled in April 1999 and certified by the Tel-Aviv District Court against Supergas and four other gas companies for a declaratory judgment regarding the responsibility of the gas companies to refund to their customers payments which were paid for periodic examinations which were not performed. Supergas filed for permission to appeal this decision to the Israeli Supreme Court. In the opinion of

the company's management, Supergas has recorded an adequate provision in its books for any potential exposure.

In arbitration between the Israeli Fuel Authority and the organization of the owners of fuel stations, the arbitrator ordered the Fuel Authority to reimburse the fuel- stations owner's for depreciation on their investments in stations. The Arbitrator's Order was approved by the District Court. The Fuel Authority demanded that the fuel companies pay such payments. As a result of the arbitration, twenty five third-party claims were filed against Sonol (a subsidiary of Granite), in the total amount of NIS 43 million ($9 million). All of the claims were dismissed in October 2002. An appeal was filed to the Supreme Court. Sonol's legal counsel believes that it is not likely that the appeal will be granted.

Additional information regarding the above described legal proceedings and other legal proceedings involving Granite may be found in Note 25 to the Granite financial statements for the year ended December 31, 2002, a copy of which has been filed with the Securities and Exchange Commission in connection with this Report.

Kaniel

On December 2, 1997, Kaniel, the Israeli Company for Tin Containers Ltd. (Kaniel) filed a suit against the Company in the Tel Aviv District Court, in the amount of NIS 3,623,058 ($0.8 million). The suit relates to eight loans given to Kaniel by the Company in 1984. Kaniel claimed that the Company's actions in connection with the loans were forbidden under the Israeli Interest Law. On November 24, 2002, the Tel Aviv District Court dismissed the claim.

MIRS

A petition to certify a class action against MIRS in the amount of NIS 170 million ($36 million) was filed in the Tel Aviv District Court in September 2001. The claim is in connection with the change in MIRS' tariffs resulting from the implementation of MIRS' own dialing prefix, which replaced its previous dialing prefix, the Tel-Aviv area code. As a result, persons in the Tel Aviv area code claimed that they are subject to higher tariffs than those they had been subject to under MIRS's previous dialing prefix. MIRS' management estimates the maximum exposure to be substantially less than the amount claimed.

A petition to certify a class action against MIRS and the other three cellular operators in Israel in the total amount of NIS 600 million ($127 million) was filed in the Tel Aviv District Court in May 2002. The claim involves the inter-connect fees that were collected from the customers of the other operators with regard to phone calls that were made to voice recorder applications through the cellular operators' dialing numbers. At this stage, the Company cannot estimate the impact this claim will have on it.

Am-Hal

The Israeli Income Tax Authority conducted a review of Am-Hal Ltd., the Company's wholly-owned subsidiary, in 2000 and 2001. Following the review, the Income Tax Authority assessed Am-Hal for additional taxes for the years 1995-1999. Am-Hal disputed the assessment and filed an appeal based on its disagreement with the Income Tax Authority concerning the proper methodology for calculating nursing home revenues. In January 2003, AM-Hal and the Tax Authority reached an agreement that was entered into court pursuant to which income in the aggregate amount of approximately $1.4 million will be added for the years 1995 1999. The financial statements fully reflect the impact of this increased income reported for tax purposes.

Ampal (Israel)

In May 2002, the Israeli Income Tax Authority issued an assessment to Ampal (Israel) Ltd., the Company's wholly-owned subsidiary, for payment of approximately NIS 34 million ($7,177,538) for the tax years 1997-2000. Ampal (Israel) filed an appeal regarding this assessment and that it is reasonably possible that the appeal will be granted. In addition, the Company has previously established a reserve in the amount of NIS 10 million ($2,111,040) in connection with potential tax liabilities for these tax years.

Galha

On January 1, 2002, Galha (1960) Ltd. (Galha) filed a suit against the Company and other parties, including directors of Paradise Industries Ltd. (Paradise) appointed by the Company, in the Tel Aviv District Court, in the amount of NIS 8,974,401 ($1.9 million). Galha claimed that the Company, which was a shareholder of Paradise, and another shareholder of Paradise, misused funds that were received by Paradise from an insurance company for the purpose of reconstructing an industrial building owned by Galha and used by Paradise which burnt down. Paradise is currently involved in liquidation proceedings. Ampal issued a guarantee in favor of Galha for the payment of an amount of up to NIS 4,000,000 ($844,416) if a final judgment against the Company will be given. At this stage, the Company cannot estimate the impact this claim will have on it.

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

None.

PART II

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

PRICE RANGE OF CLASS A STOCK

Ampal's Class A Stock is listed on Nasdaq under the symbol AMPL . The following table sets forth the high and low bid prices for the Class A Stock, by quarterly period for the fiscal years 2002 and 2001, as reported by Nasdaq and representing inter-dealer quotations which do not include retail markups, markdowns or commissions for each period, and each calendar quarter during the periods indicated. Such prices do not necessarily represent actual transactions.

	High	Low
2002:		
Fourth Quarter	$ 2.94	$ 1.77
Third Quarter	3.63	2.69
Second Quarter	4.40	3.49
First Quarter	5.70	4.18
2001:		
Fourth Quarter	6.42	3.51
Third Quarter	6.19	3.82
Second Quarter	6.90	4.12
First Quarter	8.62	4.75

As of March 9, 2003, there were approximately 829 record holders of Class A Stock.

VOTING RIGHTS

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

DIVIDEND POLICY

Ampal has not paid a dividend on its Class A Stock other than in 1995. Past decisions not to pay cash dividends on Class A Stock reflected the policy of Ampal to apply retained earnings, including funds realized from the disposition of holdings, to finance its business activities and to redeem debentures. The payment of cash dividends in the future will depend upon the Company's operating results, cash flow, working capital requirements and other factors deemed pertinent by the Board.

Dividends on all classes of Ampal's shares of preferred stock are payable as a percentage of par value. The holders of Ampal's presently authorized and issued 4% Preferred Stock and 6 1/2% Preferred Stock (each having a $5.00 par value) are entitled to receive cumulative dividends at the rates of 4% and 6 1/2% per annum, respectively, payable out of surplus or net earnings of Ampal before any dividends are paid on the Class A Stock. If Ampal fails to pay such dividend to the preferred stockholders in any calendar year, such deficiency must be paid in full, without interest, before any dividends may be paid on the Class A Stock. If, after the payment of all cumulative dividends on the preferred stock and a non-cumulative 4% dividend on the Class A Stock, there remains any surplus, any dividends declared are to be participated in by the holders of 4% Preferred Stock and Class A Stock, pro rata. On December 17, 2002, Ampal announced that its Board of Directors had declared cash dividends on its classes of preferred stock ($0.325 per share on its 6 1/2% classes of preferred stock and $0.20 per share on its 4% Preferred Stock).

RECENT SALES OF UNREGISTERED SECURITIES

Pursuant to a Letter Agreement, dated as of January, 31, 2001, between Ampal (Israel) Ltd., a wholly-owned subsidiary of Ampal, and Zionism 2000, a charitable organization, Ampal (Israel) Ltd. gifted 6,000 shares of Class A Stock to Zionism 2000 on February 9, 2001.

Pursuant to a Letter Agreement, dated as of January 31, 2001, between Ampal (Israel) Ltd., a wholly-owned subsidiary of Ampal, and Coaching Ltd., Ampal (Israel) Ltd. transferred 1,500 shares of Class A Stock to Coaching Ltd. on March 1, 2001, as compensation for services rendered.

The transfer to each of Zionism 2000 and Coaching Ltd. of the aforementioned shares was exempt from registration under the Securities Act of 1933, as amended, by reason of Regulation S under such Act because the transactions were consummated outside the United States.

ITEM 6. SELECTED FINANCIAL DATA

YEAR ENDED DECEMBER 31,	2002	2001	2000	1999	1998
	(Dollars in thousands, except per share data)				
Revenues	$ 16,732	$ 29,062	$ 39,697	$ 69,613	$ 23,160
Net income (loss)	(44,047)	(6,974)	813	28,031(1)	2,175(1)
Earnings (loss) per Class A share:					
Basic EPS	$ (2.27)(2)	$ (0.38)(2)	$ 0.03(2)	1.32(1)(2)	$ 0.08(1)(2)
Diluted EPS	$ (2.27)	$ (0.38)	$ 0.03	1.15(1)	$ 0.07(1)(3)
Total assets	323,699	383,833	$ 446,628	396,780	324,916
Notes and loans and debentures Payable	136,803	145,901	201,576	174,519	129,025

(1) Includes (loss) from discontinued operations, as follows:

Year Ended December 31,	2002	2001	2000	1999	1998
	(Dollars in thousands, except per share data)				
(Loss) from continued operations	$ (44,047)	$ (6,974)	$ 813	$ 30,187	$ 3,890
(Loss) from discontinued operations	$	$	$	$ (2,156)	$ (1,715)
(Loss) per Class A share from discontinued operations:					
Basic EPS	$	$	$	$ (0.10)	$ (0.07)

Diluted EPS	$	$	$	$ (0.09)	$ (0.06)

(2) Computation is based on net income (loss) after deduction of preferred stock dividends of $218, $227, $234, $284 and $335, respectively.

(3) Computation is based on net income after deduction due to dilution in equity in earnings of affiliate of $334 .

ITEM 7.

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

GENERAL

The Company acquires interests in businesses located in the State of Israel or that are Israel-related. The Company focuses on a broad cross-section of Israeli companies engaged in various fields including Energy, Industry, Real Estate and Project Development, Telecommunications and High-Technology. The Company sometimes participates in the management of its investee companies through representation on boards of directors or otherwise.

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

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

For those subsidiaries and affiliates whose functional currency is considered to be the New Israeli Shekel (NIS), assets and liabilities are translated at the rate of exchange at the end of the reporting period and revenues and expenses are translated at the average rates of exchange during the reporting period. Translation differences of those foreign companies financial statements are included in the cumulative translation adjustment account (reflected in accumulated other comprehensive loss) of shareholders equity. Should the NIS be devalued against the U.S. dollar, cumulative translation adjustments are likely to result in a reduction in shareholders equity. As of December 31, 2002, the effect on shareholders equity was a decrease of approximately $20.8 million. Upon disposition of an investment, the related cumulative translation adjustment balance will be recognized in determining gains or losses.

CRITICAL ACCOUNTING POLICIES

The preparation of Ampal s consolidated financial statements is in conformity with accounting principles generally accepted in the United States which requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the

accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Ampal s business activities, described below are certain Ampal accounting policies that are relatively more important to the portrayal of its financial condition and results of operations and that require management s subjective judgments. Ampal bases its judgments on its experience and various other assumptions that it believes to be reasonable under the circumstances. Please refer to Note 1 to Ampal s consolidated financial statements included in this Annual Report for the year ended December 31, 2002 for a summary of all of Ampal s significant accounting policies.

Portfolio Investments

The Company accounts for a number of its investments, including many of its investments in the high-technology and communications industries, on the basis of the cost method. Application of this method requires the Company to periodically review these investments in order to determine whether to maintain the current carrying value or to write off some or all of the investment. While the Company uses some objective measurements in its review, such as the portfolio company s liquidity, burn rate, termination of a substantial number of employees, achievement of milestones set forth in its business plan or projections and seeks to obtain relevant information from the company under review, the review process involves a number of judgments on the part of the Company s management. These judgments include assessments of the likelihood of the company under review to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments the Company must also attempt to anticipate trends in the particular company s industry as well as in the general economy. There can be no guarantee that the Company will be accurate in its assessments and judgments. To the extent that the Company is not correct in its conclusion it may decide to write down all or part of the particular investment.

Investment in MIRS

MIRS is our largest investment and is being accounted for at cost (our equity interest is 25%). The Cost method is applied due to preference features we have been granted in our investment in preferred shares in Mirs. Revenues from guaranteed payments from Motorola are recognized as income. We perform annual tests for impairment regarding our investment. Our assessment, based on a valuation of our investment in MIRS as of December 31, 2002, resulted in no impairment charge. The valuation was calculated according to the discounted cash flow method, taking into account the preferences to which we are entitled from Motorola under the MIRS purchase agreement.

Marketable Securities

We determine the appropriate classification of marketable securities at the time of purchase. To date, we hold marketable securities classified as trading securities that are carried at fair value, and marketable securities classified as available-for-sale that are carried at fair value with unrealized gains and losses included in the component of accumulated other comprehensive loss in stockholders equity. If according to management s assessment it is determined that a decline in the fair value of any of the investments is other than temporary, an impairment loss is recorded and included in the consolidated statements of income as financial expenses.

Long- lived assets

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

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. A valuation allowance is currently set against certain tax assets because management believes it is more likely than not that these deferred tax assets will not be realized through the generation of future taxable income. We also do not provide for taxes on undistributed earnings of our foreign subsidiaries totaling $30.1 million in 2002, as it is our intention to reinvest undistributed earnings indefinitely outside the United States.

If the earnings were not considered permanently reinvested, approximately $10.1 million of deferred income taxes would have been provided in 2002.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

FAS 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including the timing of liability recognition and initial measurement of the liability. FAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. FAS 143 is effective for fiscal years beginning after June 15, 2002 (January 1, 2003 for the Company). The Company does not believe that the adoption of SFAS 143 will have any material effect on our consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Revision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Connections (SFAS 145). Among other amendments and rescissions, SFAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect, unless such gains and losses meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30, Reporting the Results of Operation Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions . SFAS 145 is partially effective for transactions occurring after May 15, 2002 and partially effective for fiscal years beginning after May 15, 2002. The Company does not believe that the adoption of SFAS 145 will have any material effect on our consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when the Company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. The Company will adopt SFAS 146 for exit disposal activities that are initiated after December 31, 2002. Upon the adoption of SFAS 146, previously issued financial statements shall not be restated. The Company does not believe that the adoption of SFAS 146 will have any material effect on its consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires the guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued and to be made in regard of product warranties. The Company does not expect the adoption of FIN 45 to have a material effect on our consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This Statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS No. 123 s fair value method of accounting for stock-based employee compensation. This Statement also amends the disclosure provision of SFAS No. 123 and APB No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The Company has elected to continue accounting for employee stock option plans according to APB No. 25, and has adopted the disclosure requirements under SFAS No. 148 commencing on December 31, 2002.

In January 2003, the FASB issued FASB Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46). Under this FIN entities are separated into two populations: (1) those for which voting interests are used to determine consolidation (this is the most common situation) and (2) those for which variable interests are used to determine consolidation. The FIN explains how to identify Variable Interest Entities (VIE) and how to determine when a business enterprise should include the assets, liabilities, non-controlling interests, and results of activities of a VIE in its consolidated financial statements. The FIN is effective as follows: for variable interests in variable interest entities created after January 31, 2003 the FIN shall apply immediately, for variable interests in variable interest entities created before that date, the FIN shall apply for public

entities as of the beginning of the first interim or annual reporting period beginning after June 15, 2003. FIN 46 is effective immediately for certain disclosure requirements and variable interest entities created after January 31, 2003 and in fiscal 2003 for all other variable interest entities. As the Company does not have variable interest entities, the adoption of FIN 46 will not have an effect on the Company s financial position, results of operations or cash flows.

RESULTS OF OPERATIONS

Year ended December 31, 2002 compared to Year ended December 31, 2001:

The Company recorded a consolidated net loss of $44.0 million for the year ended December 31, 2002, as compared to $7.0 million for the same period in 2001. The increase in net loss is primarily attributable to the higher unrealized losses on investments in marketable securities, higher loss from impairment of investments and loans and significantly lower gains from the sale of real estate rental property in 2002, as compared to 2001, the absence of the gains from the sale of investments in 2002, and higher provision for income taxes. These decreases were partially offset by lower interest expense.

Equity in earnings of affiliates decreased to a loss of $3.3 million for the year ended December 31, 2002, as compared to a loss of $2.2 million for the year ended December 31, 2001. The decrease is primarily attributable to the decreased earnings of Ophirtech Ltd., the Company s 42.5% - owned affiliate, which recorded higher losses from impairment of investments in 2002, and from the 37% owned Bay Heart Limited (Bay Heart), which recorded higher losses in 2002 as a result of decreased rental revenues and increased security expenses consistent with the political/security situation in Israel. Bay Heart s decreased rental revenue was due to lower than average rental rates on its properties caused in part by the recession in Israel which affected the real estate sector and by the surplus of mall properties in the Haifa area and from the 20.4% owned Granite Hacarmel Ltd (Granite), which recorded losses in 2002 as a result from impairment of investments.

On March 28, 2001, the Company concluded the sale of its interest in a building located at 800 Second Avenue (800 Second Avenue) in New York City for $33.0 million and recorded a pre-tax gain of approximately $8.0 million ($4.3 million net of taxes) No comparable real estate sales occurred during the fiscal year ended December 31, 2002.

On May 2, 2001, the Company sold its real estate rental property located in Bnei Brak, Israel (Bnei Brak) and recorded a pre-tax gain of approximately $2.1 million ($1.6 million net of taxes).

During December 2002, Ophir Holding Ltd. signed agreements to sell four of its properties for the aggregate amount of $5.9 million (net income $4.2 million). Gain will be recognized during the first quarter of 2003.

On December 22, 2002, the Company recorded a $0.7 million pretax gain on the sale of real estate rental property.

In the year ended December 31, 2002, Ampal recorded $20.4 million of realized and unrealized losses on investments, which consisted of $3.3 million of realized and unrealized losses on investments classified as trading securities and $17.1 million of unrealized losses other than temporary decline in value of investments in the available-for-sale securities. In the same period in 2001, the Company recorded $1.7 million of realized and unrealized losses on investments which consisted of $3.3 million of unrealized losses on investments and $1.6 million of realized gains from sale of investments. The realized and unrealized losses on trading securities recorded in 2002 were primarily attributable to the Company s investment in shares of Bank Leumi Le Israel B.M. (Leumi) ($2.0 million) mutual funds and other securities ($1.3 million). The unrealized losses other than temporary decline in value of the Company s investments in the available-for-sales securities in 2002 were primarily attributable to the investment in shares of Blue Square Israel Ltd (Blue Square) ($12.8 million), a publicly traded company on the Tel Aviv and New York Stock Exchanges. In June 1999, the Company invested $ 24 million to purchase 1,500,000 shares of Blue Square, representing 3.9% of Blue Square, at $ 16 per share. As of December 31, 2002 the investment in Blue Square had a market value of $ 11.2 million. Primarily due to the length of the time and extent to which the market value has been less than cost, such decline has been accounted for as other than temporary. The Company also wrote down its investments in shares of Sonic Foundry Inc. (Sonic) ($1.8 million), Alvarion ($2.0 million) and Compugen Ltd. (Compugen) ($0.5 million). At December 31, 2002 and December 31, 2001, the aggregate fair value of trading securities amounted to approximately $5.2 million and $9.9 million, respectively.

Other income realized by the Company is principally composed of guaranteed payments from Motorola equal to $ 7.1 million for the years ended December 31, 2002 and 2001.

The Company recorded lower interest expense in the year ended December 31, 2002, as compared to the same period in 2001, primarily as a result of lower interest rates.

The decrease in real estate income and expenses in 2002 as compared to 2001 is primarily attributable to the sale of 800 Second Avenue in New York City.

In the year ended December 31, 2002, the Company recorded $15.1 million in losses from the impairment of its investments and loans in the following companies: Bay Heart Limited (Bay Heart) ($2.9 million), Bridgewave Communications, Inc.(Bridgewave) ($2.8 million), Shellcase Ltd. ($2.3 million), Oblicore Ltd. ($2.2 million), Modem Art Ltd. ($1.0 million), Carmel Container Systems Limited (Carmel) ($0.9 million), Star Management of Investments No.II (2000) L.P. ($0.6 million), Camelot Information Technologies Ltd. (Camelot) ($0.5 million), Netformx Ltd. ($0.5 million), Enbaya Inc. ($0.5 million), Shiron Satellite Communications (1996) Ltd. (Shiron) ($0.4 million), VisionCare Opthalmic Technologies Ltd. (VisionCare) ($0.3 million), Tulip Ltd. ($0.1 million), and Babylon Ltd. ($0.1 million). During the fiscal year ended December 31, 2001, the Company recorded a $13.1 million loss from the impairment of its investments. A substantial portion of these losses resulted from the worldwide slump in technology markets which affected both sales and the ability of companies to raise additional capital. Companies at the start-up stage, as are a number of the Company s portfolio companies, were particularly affected by the weakness in the private capital markets as these companies depend on additional rounds of investment for operating funds. See -Critical Accounting Policies for a discussion of the factors affecting the Company s decision to write-off its investments accounted for under the cost method.

The increase in the effective income tax rate in 2002, as compared to 2001, is primarily attributable to the unrealized losses on investments for which no tax benefits are currently available.

Our management currently believes that inflation has not had a material impact on our operations.

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SELECTED QUARTERLY FINANCIAL DATA

	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
	(Dollars in thousands, except per share data)				
Year Ended December 31, 2002					
Revenues[1]	$ 5,532	$ 5,235	$ 4,905	$ 1,060	$ 16,732
Net interest expense	(2,188)	(1,376)	(1,735)	(2,392)	(7,691)
Net (loss)	(6,175)	(9,158)	(11,439)	(17,275)	(44,047)
Basic EPS:					
(Loss) per Class A share[2]	(0.32)	(0.47)	(0.58)	(0.9)	(2.27)
Diluted EPS:					
(Loss) per Class A share	(0.32)	(0.47)	(0.58)	(0.9)	(2.27)
Year Ended December 31, 2001					
Revenues[1]	$ 12,711	$ 7,426	$ 3,760	$ 5,165	$ 29,062
Net interest expense	(3,983)	(2,763)	(1,930)	(2,025)	(10,701)
Net income (loss)	$ 360	$ (3,811)	$ (3,067)	$ (456)	$ (6,974)
Basic EPS:					
Earnings (loss) per Class A share[2]	$ 0.01	$ (0.20)	$ (0.16)	$ (0.03)	$ (0.38)
Diluted EPS:					

Earnings (loss) per Class A share	$ 0.01	$ (0.20)	$ (0.16)	$ (0.03)	$ (0.38)

(1) Reclassified to conform with year-end presentation.

(2) After deduction of preferred stock dividends of $218 and $227, respectively.

Year ended December 31, 2001 compared to Year ended December 31, 2000:

The Company recorded a consolidated net loss of $7.0 million for the year ended December 31, 2001, as compared to net income of $0.8 million for the same period in 2000. The decrease in income is primarily attributable to the decrease in equity in earnings of affiliates, lower gains on sale of investments, higher loss from impairment of investments and a decrease in real estate income. These decreases in income were partially offset by the gain on sale of real estate rental property, higher other income, a lower effective income tax rate, lower unrealized losses on investments, lower interest expense and a translation gain in 2001, as compared to a translation loss in 2000.

Equity in earnings of affiliates decreased to a loss of $2.2 million for the year ended December 31, 2001, from income of $11.9 million for the same period in 2000. The decrease is primarily attributable to the decreased earnings of the Company s 50%-owned affiliate, Trinet Venture Capital Ltd. (Trinet) and Ophir Holdings Ltd. (Ophir Holdings), the Company s 42.5%-owned affiliate. Trinet recorded unrealized gains on its investments in Smart Link Ltd. in 2000, as compared to unrealized losses in 2001. Ophir Holdings , recorded an unrealized gain on a trading security in 2000. There was no similar gain in 2001. In addition, two of the Company s other affiliates, 42.5%-owned Ophirtech Ltd. (Ophirtech) and 37%-owned Bay Heart, recorded higher losses in 2001. Ophirtech, which invests in companies in the high technology sector, recorded losses from impairment of investments in 2001. Bay Heart, which operates a shopping mall in the Haifa Bay area, recorded losses as a result of decreased rental revenues, increased financing expenses and a higher provision for income taxes.

In the year ended December 31, 2001, the Company recorded $1.6 million of gains on the sale of investments, which were primarily attributable to its investment in Floware Wireless Systems Ltd. (Floware). In the year ended December 31, 2000, the Company recorded $13.7 million of gains on the sale of investments, which were primarily attributable to its investment in BreezeCOM Ltd. (BreezeCOM). In August 2001, BreezeCOM acquired Floware and changed the name of the combined entity to Alvarion Ltd.

The Company recorded $3.3 million of unrealized losses on investments which are classified as trading securities in the year ended December 31, 2001, as compared to $5.9 million of unrealized losses in the same period in 2000. The unrealized losses recorded in 2001 are primarily attributable to the Company s investment in shares of Leumi and Arel Communications and Software Ltd. (Arel), while the unrealized losses in 2000 are primarily attributable to the Company s investment in shares of Arel. At December 31, 2001 and December 31, 2000, the aggregate fair value of trading securities held by the Company amounted to approximately $9.9 million and $23.8 million, respectively.

On March 28, 2001, the Company concluded the sale of its interest in 800 Second Avenue in New York City for $33 million and recorded a pre-tax gain of approximately $8 million ($4.3 million net of taxes).

On May 2, 2001, the Company sold its real estate rental property located in Bnei Brak, Israel and recorded a pre-tax gain of approximately $2.1 million ($1.6 million net of taxes).

The decrease in real estate income of approximately $1.2 million in 2001, as compared to 2000, is attributable to the sale of 800 Second Avenue and Bnei Brak.

The increase in other income of $2.3 million in the year ended December 31, 2001 as compared to the same period in 2000, is primarily attributable to the higher guaranteed income received from Motorola (Israel) Ltd. ($7.1 million in 2001, as compared to $3.8 million in 2000) with respect to the level of dividends from MIRS Communications Ltd. (MIRS). This increase was partially offset by the $1.6 million dividend received from MIRS in 2000, which was not distributed by MIRS in 2001. To the extent MIRS continues to seek to penetrate the Israeli cellular market, its results of operations will be affected by the intense competition in the market.

The decrease in interest expense of approximately $1.4 million in the year ended December 31, 2001, as compared to the same period in 2000 is attributable to the repayments of notes and loans payable.

In the year ended December 31, 2001, the Company recorded a $13 million loss from impairment of its investments in the following companies, all of which are in the high-technology sector: Camelot Information Technologies Ltd. ($5 million), Netformx Ltd. ($2.6 million), Enbaya Inc. ($1.4 million), Shiron Satellite Communications (1996) Ltd. ($1.4 million), RealM Technologies Ltd.,($1.3 million) mPrest

Technologies Ltd. ($0.8 million) Babylon Ltd. ($.3 million), and Elephanx DotCom L.L.C. ($0.2 million). In the year ended December 31, 2000, the Company recorded an $11.1 million loss from impairment of investments attributable to the $3.5 million bank guarantees paid on behalf of M.D.F. Industries Ltd. and to the impairment in values of the Company s investments in Smartlight Ltd. ($3 million), Netformx Ltd. ($2.5 million), Qronus Interactive Israel (1994) Ltd. ($1.1 million), Zactus, Inc. ($0.5 million) and ContactNOW, Inc. ($.5 million).

The Company recorded a translation gain of $2.1 million in the year ended December 31, 2001, as compared to a translation loss of $1.3 million in the same period in 2000. The translation gain in 2001 is attributable to the devaluation of the new Israeli shekel against the U.S. dollar in the year ended December 31, 2001, while the translation loss in 2000 was primarily attributable to foreign exchange forward contracts executed by the Company, which were outstanding during 2000.

The decrease in the effective income tax rate in 2001, as compared to 2000, is attributable to state and local income taxes with respect to the gain on sale of 800 Second Avenue, losses of certain Israeli subsidiaries for which no tax benefits are currently available and certain expenses which are not deductible for income tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

On December 31, 2002, cash and cash equivalents were $1.6 million, as compared with $8.0 million at December 31, 2001. The decrease in cash and cash equivalents is primarily attributable to the repayments of notes and loans payable.

The Company s sources of cash include cash and cash equivalents, marketable securities, cash from operations, cash from investing activities and amounts available under credit facilities, as described below. The Company believes that these sources are sufficient to fund the current requirements of operations, capital expenditures, investing activities, dividends on preferred stock and other financial commitments of the Company for the next 12 months. However, to the extent that contingencies and payment obligations described below and in other parts of this Report require the Company to make unanticipated payments, the Company would need to further utilize these sources of cash. To the extent that the Company intends to rely on the sale of marketable securities in order to satisfy its cash needs, it is subject to the risk of a shortfall in the amount of proceeds from any such sale as compared with the anticipated sale proceeds due to a decline in the market price of those securities. In the event of a decline in the market price of its marketable securities, the Company may need to draw upon its other sources of cash, which may include additional borrowing, refinancing of its existing indebtedness or liquidating other assets, the value of which may also decline. In addition, the shares of MIRS owned by the Company have already been pledged as security for specific loans provided to the Company for the purchase of these shares and would therefore be unavailable if the Company wished to pledge them in order to provide an additional source of cash.

Cash flows from operating activities

Net cash provided by operating activities totaled approximately $3.3 million for the year ended December 31, 2002, as compared to approximately $33.9 million for the same period in 2001. The decrease is primarily attributable to the $27.1 million dividends from affiliates received in 2001, as compared to $0.7 million in 2002.

Cash flows from investing activities

Net cash used in investing activities totaled approximately $0.7 million for the year ended December 31, 2002, as compared to compered to cash provied approximately $20.4 million for the same period in 2001. This decrease is primarily attributable to the $34.9 million proceeds received from the sale of 800 Second Avenue and the Bnei Brak real estate properties in 2001. These proceeds were partially offset by higher investments made in 2001 in the amount of $9.1 million and higher loans granted in 2001 of $6.5 million.

Cash flows from financing activities

Net cash used in financing activities was approximately $7.3 million at December 31, 2002, as compared to approximately $51.8 million at December 31, 2001. The decrease in the cash used in 2002 is attributable to the pay down of notes and loans repayments ($12.4 million and $62.8 million in 2002 and 2001, respectively). Notes and loans repayments in 2001 include the $15.0 million loan repayment with respect to the 800 Second Avenue property.

Investments

On December 31, 2002, the aggregate fair value of trading and available-for-sale securities was approximately $18.6 million, as compared to $40.6 million at December 31, 2001. The decrease in 2002 is attributable to decreases in the market prices of such securities.

On January 2, 2002, the Company made a $0.5 million loan to Camelot. In February 2002, the Company, together with other Camelot debtholders, initiated liquidation proceedings with respect to Camelot s assets. The Company has written off its investment in Camelot.

In 2002, the Company made the following investments:

(1) A $1.3 million in ShellCase Ltd., a developer and manufacturer of chip size packaging. The Company currently holds an approximately 14.0% equity interest in ShellCase Ltd.

(2) A $0.7 million in PowerDsine Ltd., a leading designer and developer of software controlled power solutions. The Company currently holds an approximately 8.1% equity interest in PowerDsine Ltd.

(3) A $0.2 million in XACCT Technologies Ltd., a developer and marketer of TCP/IP network software. The Company currently holds an approximately 16.9% in XACCT Technologies Ltd.

Debt

At December 31, 2002, the Company had in place unused lines of credit in the aggregate amount $5.1 million.

In connection with its investment in MIRS, the Company has two long-term loans from Bank Hapoalim Ltd. (Hapoalim) and Bank Leumi Le-Israel Ltd. (Leumi) in the outstanding amount of $37.2 million and $34.9 million, respectively, as of December 31, 2002. Both loans are due on March 31, 2008 and bear interest at a rate of LIBOR plus 0.8%. Other than as described in this paragraph, the loans are non-recourse to the Company and are secured by the Company s shares in MIRS. The principal payments are due as follows: 10% on March 31, 2004, 15% on March 31, 2005 and 25% on each of the following dates - March 31, 2006, 2007 and 2008. Interest will be paid annually on March 31 of each year from March 31, 2002 until and including March 31, 2008. These loans are subject to the compliance by MIRS with covenants regarding its operations and financial results. In March 2002, some of the covenants in the loan from Leumi were amended to reflect changes in MIRS business. In connection with these amendments, the Company agreed that Leumi will have recourse to the Company for an amount of up to $3.5 million if Motorola (Israel) Ltd. does not make a guaranteed payment to the Company on March 31, 2003, as is required by the terms of the agreement under which the Company purchased its interest in MIRS from Motorola (Israel) Ltd. In addition, Leumi will have recourse to the Company for an additional $0.5 million beginning in 2006 with respect to the Company s repayment obligations under the loan.

As of December 31, 2002, the Company had $5.4 million in outstanding debentures with interest rates of 7.5%. These debentures, which mature in 2005, are secured by $5.6 million in cash held in a secured account. In addition, as of December 31, 2002, the Company had $17.1 million outstanding in 11% discount debentures, which mature in 2003. On October 2002, there was an early redemption of $0.5 million. The Company is borrowing additional cash from banks to repay the outstanding debentures on April 1, 2003.

The Company financed a portion of the development of Am-Hal, a wholly-owned subsidiary which develops and operates luxury retirement centers for senior citizens, through bank loans from Hapoalim. At December 31, 2002 and December 31, 2001, the amounts outstanding under these loans were $12.7 million and $14.3 million, respectively. The loans are dollar linked, mature through 2007-2010 and have interest rates of LIBOR plus 2.25%. The Company generally repays these loans with the proceeds received from deposits and other payments from the apartments in Am-Hal facilities. The loans are secured by a lien on Am-Hal s properties. The Company also issued guarantees in the amount of $ 4.8 million in favor of clients of Am-Hal in order to secure their deposits.

The Company also finances its general operations and other financial commitments through short-term borrowings, mainly from Hapoalim. The term of these borrowings is up to one year. The weighted average interest rates and the balances of these short-term borrowings at December 31, 2002 and December 31, 2001 were 4.03% on $39.8 million and 3.23% on $31.1 million, respectively.

As of December 31, 2002, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of $15.3 million. This includes:

$4.0 million guarantee to Leumi with respect to the MIRS loan as described above ($3.5 million guarantee will expire on March 31, 2003).

$5.7 million guarantee on indebtedness incurred by Bay Heart ($3.5 million of which was recorded as a loss in the Company s financial statements at December 31, 2002) in connection with the development of its property. Bay Heart recorded increased losses in 2002 as a result of decreased rental revenues. There can be no guarantee that Bay Heart will become profitable or that it will generate sufficient cash to repay its outstanding indebtedness without relying on the Company s guarantee.

$4.8 million guarantee to Am- Hal tenants as described above.

$0.8 million guarantee to Galha 1960 Ltd as described in Item 3 of this Report.

In each of 2002 and 2001, Ampal paid dividends in the amount of $0.20 and $0.325 per share on its 4% and 6 ½% Cumulative Convertible Preferred Stocks, respectively. Total dividends paid in each year amounted to approximately $0.2 million.

Subsequent event

On January 1, 2003, the Company entered into an agreement pursuant to which the Company will sell its shareholdings of Carmel Container Systems Limited (Carmel). Pursuant to this agreement, the Company will sell 522,000 ordinary shares of Carmel at a price per share of $6.75 for an aggregate purchase price of $3,523,500.

The consummation of the aforementioned transaction is contingent upon certain conditions, including the consummation of a merger transaction between Carmel and Best Carton Ltd. (Best) pursuant to which all shares of Best will be purchased by Carmel in consideration of shares of Carmel which be issued to Best s shareholders, and the authorizations required by law for the aforementioned transaction.

Other Developments

On April 25, 2002, Rebar Financial Corporation (Rebar), which, as of such date, owned 11,115,112 shares of Ampal s Class A Stock (representing approximately 51% of the outstanding Class A Stock on a fully-diluted basis), completed the sale of such shares of Class A Stock to Y.M. Noy Investments Ltd., a company incorporated under the laws of Israel (Y.M. Noy) pursuant to the terms of that certain Stock Purchase Agreement, dated as of February 26, 2002. Rebar is controlled by Daniel Steinmetz, who, as of such date, was the Ampal s Chairman of the Board of Directors, and Raz Steinmetz, who, as of such date, was a director of Ampal and the Ampal s President and Chief Executive Officer. Yosef A. Maiman owns 100% of the economic shares and one-third of the voting shares of the Y.M. Noy, and holds an option to acquire the remaining two-thirds of the voting shares of the Y.M. Noy (which are currently owned by Ohad Maiman and Noa Maiman, the son and daughter, respectively, of Mr. Maiman). Mr. Maiman, Ohad Maiman and Noa Maiman are the sole directors of Y.M. Noy.

Also on April 25, 2002, certain of the Ampal s employees and officers sold an additional 329,000 shares of Class A Stock to the Y.M. Noy.

As a result of the purchase of an aggregate of 11,444,112 shares of the Class A Stock by Y.M. Noy, the Company has concluded that a change in control has occurred for purposes of the Securities Exchange Act of 1934, as amended.

The aggregate purchase price paid by Y.M. Noy for the 11,444,112 shares of the Class A Stock was approximately $85,374,564, or $7.46013 per share.

As of March 9,2003, Y.M. Noy has subsequently purchased 269,120 shares of Class A Stockin market transactions and Y.M. Noy owns 11,713,232 shares of Class A Stock or 59.5% of the outstanding shares of Class A Stock as of such date.

Foreign Currency Contracts

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

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS AND SENSITIVITY ANALYSIS

The Company is exposed to various market risks, including changes in interest rates, foreign currency rates and equity price changes. The following analysis presents the hypothetical loss in earnings, cash flows and fair values of the financial instruments which were held by the Company at December 31, 2002, and are sensitive to the above market risks.

During the fiscal year ended December 31, 2002, there have been no material changes in the market risk exposures facing the Company as compared to those the Company faced in the fiscal year ended December 31, 2001.

Interest Rate Risks

At December 31, 2002, the Company had financial assets totaling $11.6 million and financial liabilities totaling $136.8 million. For fixed rate financial instruments, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for variable rate financial instruments, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 2002, the Company had fixed rate financial assets of $7.7 million and variable rate financial assets of $4.0 million. Holding other variables constant, a ten percent increase in interest rates would decrease the unrealized fair value of the fixed financial assets by approximately $0.1 million.

At December 31, 2002, the Company had fixed rate debt of $32.2 million and variable rate debt of $104.6 million. A ten percent decrease in interest rates would increase the unrealized fair value of the fixed rate debt by approximately $0.3 million.

The net decrease in earnings for the next year resulting from a ten percent interest rate increase would be approximately $0.4 million, holding other variables constant.

Exchange Rate Sensitivity Analysis

The Company s exchange rate exposure on its financial instruments results from its investments and ongoing operations in Israel. During 2002, the Company entered into various foreign exchange forward purchase contracts to partially hedge this exposure. At December 31, 2002, the Company had open foreign exchange forward purchase contracts in the amount of $22.5 million. Holding other variables constant, if there were a ten percent devaluation of the foreign currency, the Company s cumulative translation loss reflected in the Company s accumulated other comprehensive loss would increase by $1.5 million, and regarding the statements of income loss a ten percent devaluation of the foreign currency would be reflected in a net decrease in earnings and would be $0.3 million.

Equity Price Risk

The Company s investments at December 31, 2002, included marketable securities (trading and available-for-sale) which are recorded at fair value of $18.6 million, including a net unrealized loss of $29.1 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges is approximately $1.9 million.

ITEM 8- FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheet of Ampal-American Israel Corporation and subsidiaries (the Company) as of December 31, 2002, and the related consolidated statements of loss, cash flows, changes in shareholders equity, and comprehensive loss for the year then ended. These financial statements are the responsibility of the Company s Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 22.6% of total consolidated assets as of December 31, 2002, and whose revenues included in consolidation constitute approximately 45.1% for the year then ended. We did not audit the financial statements of certain affiliated companies, the company s interest in which as reflected in the balance sheet as of December 31, 2002 is $40,647,929, and the company s share in excess of losses over profits of which is a net amount of $901,958 for the year then ended. The financial statements of those subsidiaries and affiliated companies were audited by other independent auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other independent auditors. The financial statements of Ampal-American Israel Corporation and subsidiaries as of December 31,2001, and for each of the two years in the period ended December 31,2001, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated March 27, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in Israel, including those prescribed by the Israeli Auditor (Mode of performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other independent auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Ampal-American Israel Corporation and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ KESSELMAN & KESSELMAN CPAs (ISR)

A member of PricewaterhouseCoopers International Limited

Tel Aviv, Israel
March 24, 2003

THE FOLLOWING REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSUED BY
ARTHUR ANDERSEN LLP.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Ampal-American Israel Corporation and subsidiaries (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of (loss) income, cash flows, changes in shareholders equity, and comprehensive (loss) income for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets and total revenues of 16% and 18%, respectively, in 2001, 15% and 15%, respectively, in 2000, total revenues of 25% in 1999, of the related consolidated totals. Also, we did not audit the financial statements of certain affiliated companies, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The Company s equity in net (losses) earnings of these affiliated companies represents ($ 2,083,000), $10,730,000 and $15,727,000, of consolidated net (loss) income for the years ended December 31, 2001, 2000 and 1999, respectively. The statements of these subsidiaries and affiliated companies were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Ampal-American Israel Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

New York, New York
March 27, 2002

Arthur Andersen LLP

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THE FOLLOWING REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY LUBOSHITZ KASIERER, THE ISRAELI AFFILIATED FIRM OF
ARTHUR ANDERSEN LLP THAT HAS NOT BEEN REISSUED.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheet of Ampal-American Israel Corporation and subsidiaries (the Company) as of December 31, 2001, and the related consolidated statements of (loss) income, cash flows, changes in shareholders equity, and comprehensive (loss) income for the year ended December 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets and total revenues of 16% and 18%, respectively, in 2001, of the related consolidated totals. Also, we did not audit the financial statements of certain affiliated companies, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The Company s equity in net losses of these affiliated companies represents $ 2,083,000, of consolidated net loss for the year ended December 31, 2001.The statements of these subsidiaries and affiliated companies were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Ampal-American Israel Corporation and subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Tel Aviv — Luboshitz Kasierer
March 27, 2002 — Arthur Andersen

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Year Ended December 31,		
	2002	**2001**	**2000**
	(Dollars in thousands, except per share data)		
REVENUES:			
Equity in (losses) earnings of affiliates (Note 12)	$ (3,334)	$ (2,174)	$ 11,876
Interest:			
Related parties		22	11
Others	962	1,220	1,195
Real estate income	7,740	8,781	9,981
Realized and unrealized gains on investments (Notes 2 and 4)			7,795
Gain on sale of real estate rental property (Note 2)	663	10,038	
Other (note 13)	10,701	11,175	8,839
Total revenues	16,732	29,062	39,697
EXPENSES:			
Interest:			
Related parties	51	203	300
Others	8,602	11,740	13,017
Real estate expenses	7,844	9,144	9,191
Realized and unrealized losses on investments (Notes 2 and 4)	20,394	1,722	
Loss from impairment of investments (Note 2)	15,078	12,988	11,095
Minority interests	866	(226)	(1,127)
Translation (gain) loss	(1,577)	(2,127)	1,257
Other (mainly general and administrative)	7,742	7,129	7,344
Total expenses	59,000	40,573	41,077

(Loss) income before income taxes (tax benefits)	(42,268)	(11,511)	(1,380)
Provision for income taxes (tax benefits) (Note 11)	1,779	(4,537)	(2,193)
NET (LOSS) INCOME	$ (44,047)	$ (6,974)	$ 813
Basic and diluted EPS: (Note 10)			
(Loss) Earnings per Class A share	$ (2.27)	$ (0.38)	$ 0.03
Shares used in calculation (in thousands)			
(diluted for year 2000 - 19,057)	19,538	19,184	18,916

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Assets As At	
	December 31, 2002	**December 31, 2001**
	(Dollars in thousands)	
Cash and cash equivalents	$ 1,557	$ 7,973
Deposits, notes and loans receivable (Note 3)	10,962	17,172
Investments (Notes 2, 4 and 12)	215,094	260,175
Real estate property, less accumulated depreciation of $9,166 and $7,500	65,598	66,643
Other assets	30,488	31,870
TOTAL ASSETS	$ 323,699	$ 383,833

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Liabilities and Shareholders Equity As At	
	December 31, 2002	**December 31, 2001**
	(Dollars in thousands)	

LIABILITIES		
Notes and loans payable (Note 5)	$ 114,257	$ 122,805
Debentures (Note 6)	22,546	23,096
Accounts payable, accrued expenses and others (Note 7)	86,718	86,712
Total liabilities	223,521	232,613
Commitments and Contingencies (note 16)		
SHAREHOLDERS EQUITY (Note 8)		
4% Cumulative Convertible Preferred Stock, $5 par value; authorized 189,287 shares; issued 139,391 and 146,226 shares; outstanding 136,041 and 142,876 Shares	697	731
6-1/2% Cumulative Convertible Preferred Stock, $5 par value; authorized 988,055 shares; issued 706,450 and 726,680 shares; outstanding 583,914 and 604,144 shares	3,532	3,633
Class A Stock $1 par value; authorized 60,000,000 shares; issued 25,502,805 and 25,407,940 shares; outstanding 19,671,141 and 19,247,276 shares	25,503	25,408
Additional paid-in capital	58,125	58,253
Retained earnings	67,475	111,740
Treasury stock, at cost	(31,096)	(33,238)
Accumulated other comprehensive loss	(24,058)	(15,307)
Total shareholders equity	100,178	151,220
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 323,699	$ 383,833

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

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

	Year Ended December 31,		
	2002	**2001**	**2000**
	(Dollars in thousands)		
Cash flows from operating activities			
Net (loss) income	$ (44,047)	$ (6,974)	$ 813
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Equity in losses (earnings) of affiliates	3,334	2,174	(11,876)
Realized and unrealized losses (gains) on investments	20,394	1,722	(7,795)

Gain on sale of real estate rental property	(663)	(10,038)	
Depreciation expense	2,014	2,293	2,208
Amortization expense	22	252	823
Impairment of investments	15,078	12,988	7,595
Minority interests	866	(226)	(1,127)
Translation (gain) loss	(1,577)	(2,127)	1,257
(Increase) decrease in other assets	1,174	(7,796)	(4,331)
Increase in accounts payable, accrued expenses and other	5,043	5,601	9,619
Investments made in trading securities	(5,476)	(409)	(23,341)
Proceeds from sale of trading securities	6,475	9,289	42,759
Dividends received from affiliates	688	27,128	6,784
Net cash provided by operating activities	3,325	33,877	23,388
Cash flows from investing activities:			
Deposits, notes and loans receivable collected	3,380	2,744	8,896
Deposits, notes and loans receivable granted	(1,472)	(7,977)	(2,089)
Investments made in:			
Available-for-sale securities		(1,257)	(2,127)
Affiliates and others	(2,221)	(10,089)	(42,136)
Proceeds from sale of investments:			
Available-for-sale securities		3,054	
Others		1,047	2,149
Return of capital by partnership	209	120	722
Capital improvements	(1,406)	(2,180)	(16,762)
Proceeds from sale of real estate property, net	818	34,906	
Net cash (used in) provided by investing activities	(692)	20,368	(51,347)

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

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

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Cash flows from financing activities:			
Notes and loans payable received:			
Related parties	$	$	$ 25
Others	5,605	11,779	58,879
Notes and loans payable repaid:			

Related parties		(5,190)	(3,143)
Others	(12,378)	(57,571)	(23,983)
Proceeds from exercise of stock options	1,973		759
Debentures repaid	(2,232)	(1,894)	(6,402)
Contribution to partnership by minority interests		1,295	
Issuance of shares to related parties and others			10
Dividends paid on preferred stock	(218)	(227)	(234)
Net cash (used in) provided by financing activities	(7,250)	(51,808)	25,911
Effect of exchange rate changes on cash and cash equivalents	(1,799)	(306)	481
Net (decrease) increase in cash and cash equivalents	(6,416)	2,131	(1,567)
Cash and cash equivalents at beginning of year	7,973	5,842	7,409
Cash and cash equivalents at end of year	$ 1,557	$ 7,973	$ 5,842
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year:			
Interest:			
Related parties	$	$ 173	$ 25
Others	6,596	7,763	6,502
Total interest paid	$ 6,596	$ 7,936	$ 6,527
Income taxes paid	$ 402	$ 5,514	$ 382
Supplemental Disclosure of None cash Investing and Financing Activities:			
Issuance of treasury stock for charity		$ 55	
Investments in investees	1,545		

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

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

	Year Ended December 31,		
	2002	**2001**	**2000**
	(Dollars in thousands, except share amounts per share data)		

4% PREFERRED STOCK			
Balance, beginning of year	$ 731	$ 782	$ 829
Conversion of 6,835, 10,175 and 9,422 shares into Class A Stock	(34)	(51)	(47)
Balance, end of year	$ 697	$ 731	$ 782
6-1/2% PREFERRED STOCK			
Balance, beginning of year	$ 3,633	$ 3,729	$ 4,459
Conversion of 20,230, 19,134 and 145,949 shares into Class A Stock	(101)	(96)	(730)
Balance, end of year	$ 3,532	$ 3,633	$ 3,729
CLASS A STOCK			
Balance, beginning of year	$ 25,408	$ 25,303	$ 24,817
Issuance of shares upon conversion of Preferred Stock	95	105	485
Issuance of additional shares			1
Balance, end of year	$ 25,503	$ 25,408	$ 25,303
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	$ 58,253	$ 58,194	$ 57,896
Conversion of Preferred Stock	40	42	292
Issuance of additional shares		17	9
Exercise of stock options, including tax benefit	(168)		(3)
Balance, end of year	$ 58,125	$ 58,253	$ 58,194
RETAINED EARNINGS			
Balance, beginning of year	$ 111,740	$ 118,941	$ 118,362
Net (loss) income	(44,047)	(6,974)	813
Dividends:			
4% Preferred Stock - $0.20 per share	(27)	(29)	(30)
6-1/2% Preferred Stock - $0.325 per share	(191)	(198)	(204)
Balance, end of year	$ 67,475	$ 111,740	$ 118,941

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

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

Year Ended December 31,

	2002	2001	2000
	(Dollars in thousands, except share amounts per share data)		
TREASURY STOCK			
4% PREFERRED STOCK			
Balance, beginning and end of year	$ (84)	$ (84)	$ (84)
6-1/2% PREFERRED STOCK			
Balance, beginning and end of year	$ (1,853)	$ (1,853)	$ (1,853)
CLASS A STOCK			
Balance, beginning of year 6,160,664, 6,168,164 and 6,528,181 shares, at cost	$ (31,301)	$ (31,338)	$ (33,615)
Issuance of 329,000, 7,500 and 360,017 shares	2,142	37	2,277
Balance, end of year 5,831,664, 6,160,664, and 6,168,164 shares, at cost	(29,159)	(31,301)	(31,338)
Balance, end of year	$ (31,096)	$ (33,238)	$ (33,275)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Cumulative translation adjustments:			
Balance, beginning of year	$ (20,163)	$ (17,217)	$ (17,676)
Foreign currency translation adjustments	(587)	(2,946)	459
Balance, end of year	(20,750)	(20,163)	(17,217)
Unrealized gain (loss) on marketable securities:			
Balance, beginning of year	4,856	7,945	3,699
Unrealized (loss) gain, net	(7,463)	(603)	4,246
Sale of available-for-sale securities	(701)	(2,486)	
Balance, end of year	(3,308)	4,856	7,945
Balance, end of year	$ (24,058)	$ (15,307)	$ (9,272)

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

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

	Year Ended December 31,		
	2002	2001	2000

	(Dollars in thousands)		
Net (loss) income	$ (44,047)	$ (6,974)	$ 813
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments	(587)	(2,946)	459
Unrealized (loss) gain on securities	(7,463)	(603)	4,246
Other comprehensive (loss) income	(8,050)	(3,549)	4,705
Comprehensive (loss) income	$ (52,097)	$ (10,523)	$ 5,518
Related tax (expense) benefit of other comprehensive (loss) income:			
Foreign currency translation adjustments	$ (446)	$ 725	$ (50)
Unrealized gain on securities	$ 3,834	$ (1,716)	$ (2,428)

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

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

Note 1 Summary of Significant Accounting Policies

(a) General

(1) Ampal is a New York corporation founded in 1942. The Company primarily acquires interests in businesses located in the State of Israel or that are Israel-related.

(2) As used in these financial statements, the term the Company refers to Ampal-American Israel Corporation (Ampal) and its consolidated subsidiaries. As to segment information see note 14.

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

(b) Consolidation

The consolidated financial statements include the accounts of Ampal and its subsidiaries. Inter-company balances are eliminated in consolidation.

(c) Translation of Foreign Currencies

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

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

(d) Foreign Exchange Forward Contracts

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities .

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

The adoption of SFAS 133 had no material impact on the company s financial position and result of operations.

At December 31, 2002, the open foreign exchange forward contracts totaled $22.7 million.

(e) Investments

(i) Investments in Affiliates

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

On January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 supersedes Accounting Principles Board Opinion (APB) No. 17, Intangible Assets . Among the most significant changes made by SFAS No. 142 are: (i) goodwill and intangible assets with indefinite lives will no longer be amortized; and (ii) goodwill and intangible assets deemed to have an indefinite life will be tested for impairment at least annually.

The adoption of SFAS 142 had no material impact on the company s financial position and result of operations.

(ii) Investments in Marketable Securities

Marketable equity securities, other than equity securities accounted for by the equity method, are reported at fair value. For those securities, which are classified as trading securities, unrealized gains and losses and realized gains and losses are reported in the statements of income (loss). Unrealized gains and losses from those securities, that are classified as available-for-sale, are reported as a separate component of shareholders equity and are included in accumulated other comprehensive loss. Declines in value determined to be other than temporary on available-for-sale securities are included in the statement of income (loss).

(iii) Cost Basis Investments

Equity investments of less than 20% in non-publicly traded companies are carried at cost. Changes in the value of these investments are not recognized unless an impairment in value is deemed to be other than temporary. The investment in MIRS communications Ltd. (MIRS) in preferred shares with preference features in the amount of $110 million which exceeds 20% of ownership, is presented at cost. At December 31, 2002, and December 31, 2001, the carrying value of the cost basis investments was $145 million and $153 million, respectively.

(f) Risk Factors and Concentrations

Financial instruments that subject the Company to credit risk consist primarily of cash, cash equivalents, short-term investments and notes and loans receivable. The Company invests cash equivalents and short-term investments through high-quality financial institutions.

The company performs on going credit evaluation of its receivables allowance for doubtful accounts.

(g) Property and Equipment

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

The Company adopted in 2002 SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived assets (SFAS 144). SFAS 144 requires that long-lived assets, to be held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under SFAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets are written down to their estimated fair values.

(h) Income Taxes

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

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries adjusted for translation effect totaling approximately $30.1 million, since such earnings are currently expected to be permanently reinvested outside the United States. If the earnings were not considered permanently invested, approximately $10.1 million of deferred income taxes would have been provided.

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

(i) Revenue Recognition

Rental income is recorded over the rental period. Revenues from services provided to tenants and country-club subscribers are recognized ratably over the contractual period or as services are performed. Guaranteed payments from Motorola are recorded in the statement of income (loss) over the guaranteed period. Revenue from amortization of tenant deposits is calculated at a fixed periodic rate based on the specific terms in the occupancy agreement signed with the tenants.

(j) Cash Equivalents

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

(k) Earning (loss) per share (EPS)

Basic and diluted net earning (loss) per share are presented in accordance with SFAS No. 128 Earnings per share (SFAS No. 128), for all periods presented. As to data used in the per share computation see note 10.

(l) Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income , (SFAS No. 130) established standards for the reporting and display of comprehensive income (loss), its components and accumulated balances in a full set of general purpose financial statements. The Company s components of comprehensive income (loss) are net losses and net unrealized gains or losses on investments held as available for sale and foreign currency translation adjustments, which are presented net of income taxes.

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(m) Employee Stock Based Compensation

The Company accounts for all plans under APB Opinion No. 25, under which no compensation costs were incurred in the years ended December 31, 2002, 2001 and 2000. If compensation cost for the options under the plans in effect been determined in accordance with SFAS No. 123, the Company s net income (loss) and EPS would have been reduced as follows:

		Year Ended December 31,		
		2002	**2001**	**2000**
		(In thousands, except per share data)		
Net income (loss):	As reported	$ (44,047)	(6,974)	$ 813
Less stock based compensation expense determined under fair value method		(7,490)	(4,673)	(11,453)
	Pro forma	(51,537)	(11,647)	(10,640)
Basic and diluted EPS:	As reported	$ (2.27)	(0.38)	$ 0.03
	Pro forma	(2.65)	(0.63)	(0.57)

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions for 2002, 2001 and 2000, respectively: (1) expected life of options of 5, 5 and 5.92 years; (2) dividend yield of 0%; (3) volatility of 57%, 71% and 59%; and (4) risk-free interest rate of 3.41%, 1.75% and 6.68%.

(n) Treasury stock

These shares are presented as a reduction of shareholders equity at their cost to the Company.

(o) Recently Issued Accounting Pronouncements

FAS 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including the timing of liability recognition and initial measurement of the liability. FAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. FAS 143 is effective for fiscal years beginning after June 15, 2002 (January 1, 2003 for the Company). The Company does not believe that the adoption of SFAS 143 will have any material effect on our consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Revision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Connections (SFAS 145). Among other amendments and rescissions, SFAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect, unless such gains and losses meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30, Reporting the Results of Operation Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions . SFAS 145 is partially effective for transactions occurring after May 15, 2002 and partially effective for fiscal years beginning after May 15, 2002. The Company does not believe that the adoption of SFAS 145 will have any material effect on our consolidated financial statements.

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In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when the Company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. The Company will adopt SFAS 146 for exit disposal activities that are initiated after December 31, 2002. Upon the adoption of SFAS 146, previously issued financial statements shall not be restated. The Company does not believe that the adoption of SFAS 146 will have any material effect on its consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires the guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued and to be made in regard of product warranties. The Company does not expect the adoption of FIN 45 to have a material effect on our consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. This Statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS No. 123 s fair value method of accounting for stock-based employee compensation. This Statement also amends the disclosure provision of SFAS No. 123 and APB No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The Company has elected to continue accounting for employee stock option plans according to APB No. 25, and has adopted the disclosure requirements under SFAS No. 148 commencing on December 31, 2002.

In January 2003, the FASB issued FASB Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46). Under this FIN entities are separated into two populations: (1) those for which voting interests are used to determine consolidation (this is the most common situation) and (2) those for which variable interests are used to determine consolidation. The FIN explains how to identify Variable Interest Entities (VIE) and how to determine when a business enterprise should include the assets, liabilities, non-controlling interests, and results of activities of a VIE in its consolidated financial statements. The FIN is effective as follows: for variable interests in variable interest entities created after January 31, 2003 the FIN shall apply immediately, for variable interests in variable interest entities created before that date, the FIN shall apply for public entities as of the beginning of the first interim or annual reporting period beginning after June 15, 2003. FIN 46 is effective immediately for certain disclosure requirements and variable interest entities created after January 31, 2003 and in fiscal 2003 for all other variable interest entities. As the Company does not have variable interest entities, the adoption of FIN 46 will not have an effect on the Company s financial position, results of operations or cash flows.

(p) Reclassifications

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

Note 2 Acquisitions and Dispositions

(a) In 2002, the Company made investments aggregating $3 million, as follows:

1. An additional investment of $1.3 million in Shellcase, a developer of chip size packing technology for semiconductors using wafer level process. The company holds an approximate 14% equity interest in Shellcase.

2. An additional investment of $0.7 million in PowerDsine Ltd. (total equity interest of 8.1%), a leading developer of power supply devices for the telecommunications industry.

3. A loan to CUTe Ltd of $0.2 million (total equity interest of 20%),a developer of bandwidth efficient techniques for the delivery of digital media over wireless networks.

4. A loan to Camelot Information Technologies Ltd. of $0.5 million, a developer of security solution for organizations.

5. An additional investment of $0.3 million in other investees.

(b) On December 2002, the Company recorded a $0.7 million pretax gain on the sale of real estate rental property.

(c) In 2002, the Company recorded loss from impairment of investments of $15.1 million as follows:

1. Bridgewave Communication Inc. ($2.8 million investment).
2. Shiron Satellite Communication (1996) Ltd. ($0.4 million investment).
3. Enbaya Ltd. ($0.5 million investment).
4. Modem Art Ltd. ($1.0 million investment).
5. Oblicore Ltd. ($2.2 million investment).
6. Star Management of Investment ($0.6 million investment).
7. VisionCare Ophthalmic Technologies Ltd. ($0.3 million investment).
8. Shellcase Ltd. ($2.3 million investment).
9. Carmel Container Systems Limited ($0.9 million investment).
10. Bay Heart Limited ($2 million investment and $0.9 million loan).
11. Netformx Ltd. ($0.5 million loan).
12. Camelot Information Technologies Ltd. ($0.5 million loan).
13. $0.2 million in other investment.

(d) In 2001, the Company made investments aggregating $14 million, as follows:

1. An additional investment of $5 million in XACCT, a provider of business infrastructure software for the next-generation public network. The Company holds an approximate 16.9% equity interest in XACCT.

2. An additional investment of $1.5 million (including $0.4 million conversion of loans) in Enbaya Ltd., a developer of a 3-D browser that enables fast viewing, compression and steaming of 3-D models, and increased its equity interest in the company from 12.9% to 19.1%.

3. An additional investment of $1.7 million (includes the conversion of a $0.5 million loan) in Shellcase Ltd. (shellcase)(CDNX: SSD), a developer of chip-size packaging technology for semiconductors using a wafer-level process. The Company holds an approximate 13.2% equity interest in Shellcase.

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4. An additional investments of an aggregrate of $0.9 million in CUTe Ltd. (CUTe), a developer of bandwidth efficient techniques for the delivery of digital media over wireless networks. The Company holds an approximate 20% equity interest in CUTe.

5. An additional investment of $0.6 million in the share of Breezecom Ltd. (NASDAQ: BRZE), a developer of wireless local area network products, and $0.6 million in the share of Floware Wireless Systems Ltd. (NASDAQ: FLRE), a developer of broadband wireless transmission solution. These two companies merged during 2001 to create a company called Alvarion (NASDAQ: ALVR).

6. An additional investment of $0.6 million in Star Management of Investment No. II (2000) L.P., a venture capital fund which focuses in investment in

communications, Internet, software and medical devices. (total equity interest of 10%).

7. An additional investment of $0.5 million in PowerDsine Ltd. (total equity interest of 8.4%), a leading developer of power supply devices for the telecommunications industry.

8. A loan to Netformx Ltd. of $1.5 million, (net equity interest of 20%) a developer of network design tools.

9. A loan to Camelot Information Technologies Ltd., of $0.5 million (total equity interest of 20%), a developer of security solution for organizations.

10. A loan to Shiron Satellite Communications (1996) Ltd. of $0.3 million, (equity interest 10%), a developer and marketer of two-way satellite communication products.

(e)

1. On March 2001, the Company sold its interest in an office building located at 800 Second Avenue, New York, New York, to Second 800 LLC, for $33 million and recorded a pre tax gain of approximately $8 million.

2. On May 2001, the Company sold its interest in an office building in Bnei Brak for $3.1 million and recorded a pre tax gain of $2.1 million.

3. On December 2001 the Company sold its interest in the Amethyst fund in Korea for $0.9 million and recorded a pre tax loss of $0.2 million.

During 2001, the Company received $0.4 million as management fees from Amethyset and reimbursed Cavallo Capital (a related party) for $0.1 million of expenses.

(f) In 2001, the Company recorded loss from impairment of investments of $13 million as follows:

1. Netformx Ltd. ($1.6 million investment and $1 million loan).

2. RealM Technologies Ltd. ($1.3 million).

3. mPrest Technologies Ltd. ($0.8 million).

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4. Shiron Satellite Communications (1996) Ltd. ($1.4 million).

5. Enbaya Ltd. ($1.4 million).

6. Camelot Information Technologies Ltd. ($4.5 million investment and $0.5 million of loan).

7. Babylon Ltd. ($0.3 million).

8. ElephantX Dot Com LLC ($0.2 million).

(g) In 2000, the Company made the following investments, aggregating $37 million:

1.

a $6.2 million investment to acquire a 4.9% interest in Arel Communications and Software Ltd., a leading provider of interactive distance learning systems;

2. an additional $3.3 million investment in Camelot Information Technologies Ltd. (Camelot) (total equity interest is 20.7%, including net indirect equity through Ophirtech Ltd. (Ophirtech)), a developer of innovative software solutions to secure organizational communication networks;

3. a $2.8 million investment to acquire a 4% interest in BridgeWave Communications Inc., a developer of wireless solutions for cable companies;

4. an additional $2.75 million investment in Netformx Ltd. (Netformx) (net equity interest is 20.2%, including net indirect equity through Trinet Venture Capital Ltd. (Trinet) and Ophirtech), a developer of network design tools;

5. a $2.75 million investment to acquire a 16.6% interest in Xpert Integrated Systems Ltd., a software and systems integrator specializing in systems security;

6. an additional $2.2 million investment in Identify Solutions Ltd. (Identify) (total equity interest is 6.1%), a developer and marketer of software solutions that improve the availability of business critical software applications;

7. a $2.2 million investment to acquire a 17% interest in Oblicore Ltd., a provider of a unique solution that enables businesses to track service performance relative to service targets and allocate service resources to maximize their success;

8. a $2 million investment to acquire a 0.4% interest in Sonic Foundry Inc., a developer of digital media and Internet software tools, services and systems;

9. an additional $1.8 million investment in PowerDsine Ltd. (PowerDsine) (total equity interest-10.8%), a leading developer of power supply devices for the telecommunications industry;

10. a $1.65 million investment to acquire a 7.6% interest in Modem Art Ltd., a developer of system-on-a-chip solutions for wideband and broadband communication systems;

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11. a $1.25 million investment to acquire a 13% interest in RealM Technologies Ltd. (total equity interest-19.2%, including net indirect equity through Ophirtech), a developer of a network of servers, which will allow the introduction of the next generation of applicable services, while maximizing performance and optimizing bandwidth usage;

12. a $1.25 million investment in Star Management of Investments No. II (2000) L.P., a venture capital fund which focuses on investments in communications, Internet, software and medical devices;

13. an additional $1.1 million investment in Compugen Ltd. (total equity interest-1.5%), a pioneer in the field of computational genomics and proteomics;

14. a $1.1 million investment to acquire a 20% interest in Ampal Cavallo Intervest Fund, a new Korean venture capital fund.

15. a $1 million investment to acquire a 0.5% interest in SeraNova, Inc., a provider of E-business services;

16. a $0.9 million investment to acquire a 20% interest in CUTe Ltd., a designer of intellectual property rights and software modules on key components of the physical layer of wireless telecommunications systems;

17. a $0.75 million investment to acquire a 9.5% equity interest in mPrest Technologies Ltd. (formerly WapDWap Ltd), a developer of web-based applications for cellular phones;

18. an additional $0.6 million investment to maintain its interest in Shiron Satellite Communications (1996) Ltd. (total equity interest-9%), a developer and marketer of two-way multimedia satellite communication products;

19. a $0.5 million investment to acquire a 12.9% interest in Enbaya Ltd., a developer and marketer of a 3D browser that enables fast viewing, compression and streaming of 3D models;

20. a $0.5 million investment to acquire a 5.6% interest in Zactus, Inc., a developer of a web site for musicians;

21. an additional $0.4 million investment in Shellcase Ltd., (total equity interest - 17.6%), a developer of the smallest packages for semiconductor chips.

(h) In 2000, the Company recorded an $11.1 million loss from impairment of investments attributable to the $3.5 million bank guarantees paid on behalf of M.D.F. Industries Ltd. (M.D.F.) and to the impairment in values of the Company s investments in SmartLight Ltd. ($3 million), Netformx Ltd. ($2.5 million), Qronus Interactive Israel (1994) Ltd. ($1.1 million), Zactus Inc. ($0.5 million) and ContactNOW Inc. ($0.5 million).

Note 3 Deposits, Notes and Loans Receivable

Deposits, notes and loans receivable earn interest at varying rates depending upon their linkage provisions. Deposits have maturities of up to 3 years (see note 6) and notes and loans receivable have maturities of up to 6 years. At December 31, 2002 and 2001, deposits, notes and loans receivable from related parties were $0.7 million and $1.4 million, respectively, and such balances with others were $10.3 million and $15.8 million, respectively. The allowance for doubtful notes receivable for 2002 and 2001was $ 3.9 million and $ 2.0 million respectively.

Note 4 Investments in Marketable Securities

The Company classifies investments in marketable securities as trading securities or available-for-sale securities:

(a) Trading Securities

The cost and market values of trading securities at December 31, 2002 and 2001 are as follows:

	Cost	Unrealized (Losses)	Market Value
	(Dollars in thousands)		
December 31, 2002			
Bonds	$ 1,278	$ (1)	$ 1,277
Equity Securities	14,161	(10,205)	3,956

Total Trading Securities	$ 15,439	$ (10,206)	$ 5,233
December 31, 2001			
Bonds	$ 10	$	$ 10
Equity Securities	17,311	(7,398)	9,913
Total Trading Securities	$ 17,321	$ (7,398)	$ 9,923

In the years ended December 31, 2002, 2001 and 2000, the Company recorded $3.3 million, $1.7 million, and $7.8 million of realized and unrealized losses gains respectively, on trading securities in the statements of income (loss).

During 2002, 2001 and 2000, the Company invested approximately $5.5 million, $0.4 million, and $23.3 million, respectively, in marketable securities, which are classified as trading securities.

(b) Available-For-Sale Securities

The cost and market values of available-for-sale securities at December 31, 2002 and 2001 are as follows:

	Cost	Other than temporarily decline	Unrealized Gains (Losses)	Market Value
	(Dollars in thousands)			
December 31, 2002				
Equity Securities	$ 32,243	$ (17,687)	$ (1,176)	$ 13,380
December 31, 2001				
Equity Securities	$ 31,743	$	$ (1,025)	$ 30,718

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Note 5 Notes and Loans Payable

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

The Company has two long-term loans from Bank Hapoalim Ltd. (Hapoalim) and Bank Leumi Le Israel Ltd. (Leumi)in the amount of $37.2 million and $34.9 million as of December 31, 2002, (in connection with its investment in shares of MIRS. Both loans are due on March 31, 2008 and bear interest at a rate of LIBOR plus 0.8%. Other than as described below, the loans are non-recourse to the Company and are secured by the Company s shares in MIRS. The principal payments are due as follows: 10% on March 31, 2004, 15% on March 31, 2005 and 25% on each of the following dates - March 31, 2006, 2007 and 2008. Interest will be paid annually on March 31 of each year from March 31, 2001 until and including March 31, 2008.

These loans are subject to the compliance by MIRS with covenants regarding its operations and financial results. In March 2002, some of the covenants in the Leumi loan were amended to reflect changes in MIRS business. In connection with these amendments, the Company agreed that Leumi will have recourse to the Company for an amount of up to $3.5 million if Motorola Israel does not make the guaranteed payment to the Company on March 31, 2003 as is required by the terms of the agreement under which the Company purchased its interest in MIRS from Motorola Israel. In addition, Leumi will have recourse to the Company for another $0.5 million beginning in 2006 in relation to the Company s repayment obligations under the loan. The Company anticipates that similar amendments will be required in the Hapoalim loan. In

the event that any such amendments are made to the Hapoalim loan, the terms of the security provided by the Company under that loan may also be changed. Any such changes may result in the Company also directly guaranteeing part of this loan.

At December 31, 2002 and 2001, notes and loans payable include $12.7 million and $14.1 million of loans, respectively, attributed to Am-Hal . The loans are dollar linked, mature through 2003 and have interest rates of zero to LIBOR plus 1%. The loans are secured by a lien on Am-Hal s properties.

The weighted average interest rates on the balances of short-term borrowings at year-end are as follows: 4.03% on $39.8 million and 3.23% on $31.1 million in 2002 and 2001, respectively.

Note 6 Debentures

Debentures outstanding at December 31 consist of:

	As of December 31,	
	2002	**2001**
	(Dollars in thousands)	
Ampal:		
Fifteen Year 11% Discount Debenture, maturing 2003	$ 17,428	$ 18,016
Ampal Development (Israel) Ltd.: Series with interest rate of 6.2% , linked to the Consumer Price Index in Israel maturing 2003-2005, secured by pledge on assets of $5.6 million and $7.5 million, respectively	5,443	7,268
	22,871	25,284
Less: Unamortized discounts	325	2,188
Total	$ 22,546	$ 23,096

Ampal Development, a wholly owned subsidiary of the Company, issued debentures which are publicly traded on the TASE. An aggregate of approximately $5.4 million of these debentures were outstanding as of December 31, 2002. Ampal Development has deposited funds with Bank Hapoalim sufficient to pay all principal and interest on these debentures.

Maturities (including required obligations) for the three years ending December 31 would be:

2003	$ 19,214
2004	1,786
2005	1,871
	$ 22,871

Note 7 Accounts payable accrued expenses and others

The balance of Accounts payable, accrued and others as of December 31, 2002 is composed of the following: $48.7 million in respect of deposits from tenants of retirement centers for senior citizens (2001 - $47.0 million), $16.1 million with respect to deferred tax liability (2001 - $19.5 million), $ 6.7 million in respect of minority interest (2001 - $5.7 million), $2.5 million with respect to accrued interest (2001 - $3.6

million) and $3.7 in respect of excess of share in losses of associated company over the investment therein (2001 - $2.4 million) and $9.0 payable amounts to others (2001 - $ 8.5 million).

Note 8 Shareholders Equity

Capital Stock

The 4% and 6-1/2% preferred shares are convertible into 5 and 3 shares of Class A Stock, respectively. At December 31, 2002, a total of 5,283,947 shares of Class A Stock are reserved for issuance upon the conversion of the Preferred Stock and the exercise of 2,852,000 options.

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

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

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

Preferred shares are non-voting, unless dividends are in arrears for three successive years. At December 31, 2002, there are no dividend in arrears.

Retained Earnings

At December 31, 2002, retained earnings include $15.1 million for affiliates accounted for by the equity method, of which $10.0 million and an additional $47.3 million from subsidiaries is not available for the payment of dividends. In most cases, this results from Israeli requirements that dividends may only be paid on the basis of shekel-denominated and not dollar-denominated retained earnings.

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Note 9 Stock Options

In March 1998, the Board approved a Long-Term Incentive Plan (1998 Plan) permitting the granting of options to all employees, officers, directors and consultants of the Company and its subsidiaries to purchase up to an aggregate of 400,000 shares of Class A Stock. The 1998 plan was approved by the majority of the Company s shareholders at the June 19, 1998, annual meeting of shareholders. The plan remains in effect for a period of ten years.
As of December 31, 2002, 204,500 options of the 1998 Plan are outstanding.

On February 15, 2000, the Stock Option Committee approved a new Incentive Plan (2000 Plan), under which the Company has reserved 4 million shares of class A Stock, permitting the granting of options to all employees, officers and directors. The 2000 Plan was approved by the Board of Directors at the meeting held on March 27, 2000 and was approved by a majority of the Company s shareholders at the June 29, 2000 annual meeting of shareholders. The plan remains in effect for a period of ten years. As of December 31, 2002 2,647,500 options of the 2000 Plan are outstanding.

The options granted under the 1998 Plan and the 2000 Plan (collectively, the Plans) may be either incentive stock options, at an exercise price to be determined by the Stock Option Compensation Committee (the Committee) but not less than 100% of the fair market value of the underlying options on the date of grant, or non-incentive stock options, at an exercise price to be determined by the Committee. The Committee may also grant, at its discretion, restricted stock, dividend equivalent awards, which entitle the recipient to receive dividends in the form of Class A Stock, cash or a combination of both and stock appreciation rights, which permit the recipient to receive an amount in the form of Class A Stock, cash or a combination of both, equal to the number of shares of Class A Stock with respect to which the rights are exercised multiplied by the excess of the fair market value of the Class A Stock on the exercise date over the exercise price. The options granted under the plants were granted either at market value or above.

Under each of the Plans, all granted but unvested options become immediately exercisable upon the occurrence of a change in control of the Company. On April 25, 2002, the controlling shareholder of the Company, Rebar Financial Corp. sold all of its stock in the Company to Y.M. Noy Investments Ltd.. Accordingly, all options granted but unvested under the Plans were immediately exercisable.

As of December 31, 2002, 1,548,000 options under both plans are available for future grant.

Transactions under both Stock Option Plans were as follows:

	Year Ended December 31, 2002	
	Options	Weighted Average Exercise Price
	(In thousands, except per share data)	
Outstanding at beginning of year	2,815	$ 23.03
Granted	1,298	$ 3.12
Exercised	(329)	$ 6.00
Forfeited/Expired	(932)	$ 26.33
Outstanding at end of year	2,852	$ 14.77
Exercisable at end of year	1,630	$ 23.51
Weighted average fair value of options granted		$ 1.62

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	Year Ended December 31, 2001	
	Options	Weighted Average Exercise Price
	(In thousands, except per share data)	
Outstanding at beginning of year	3,161	$ 24.43
Granted	205	$ 5.94
Exercised		$
Forfeited/Expired	(551)	$ 24.72
Outstanding at end of year	2,815	$ 23.03
Exercisable at end of year	912	$ 16.78

Weighted average fair value of options granted		$ 3.51

	Year Ended December 31, 2000	
	Options	Weighted Average Exercise Price
	(In thousands, except per share data)	
Outstanding at beginning of year	762	$ 8.55
Granted	2,972	$ 25.48
Exercised	(511)	$ 8.59
Forfeited/Expired	(62)	$ 10.00
Outstanding at end of year	3,161	$ 24.43
Exercisable at end of year	884	$ 20.09
Weighted average fair value of options granted		$ 6.94

Note 9 Stock Options Continued

The 2,852,000 options outstanding as of December 31, 2002 have exercise prices between $3.12 and $32 with a weighted average exercise price of $14.77 and a weighted average remaining contractual life of 8.4 years. Of these 2,852,000 options, 1,630,000 are exercisable as of December 31, 2002; their weighted average exercise price is $23.51.

The 2,815,000 options outstanding as of December 31, 2001 had exercise prices between $5.94 and $32 with a weighted average exercise price of $23.03 and a weighted average remaining contractual life of 4.8 years. Of these 2,815,000 options, 912,000 are exercisable as of December 31, 2001; their weighted average exercise price is $16.78.

Note 10 Earnings (Loss) Per Class A Share

In accordance with SFAS No. 128 Earnings Per Share , net earnings per Class A share (basic EPS) were computed by dividing net earnings by the weighted average number of Class A shares outstanding and excluded any potential dilution. Net earnings per Class A share amounts, assuming dilution (diluted EPS) were computed by reflecting potential dilution from the conversion of the 4% and 6½% Preferred Stocks into Class A Stock and the exercise of stock options. SFAS No. 128 requires the presentation of both basic EPS and diluted EPS on the face of the income statement.

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

	Year Ended December 31, 2002
	Shares

	Income (Loss)		Per Share Amounts
	(In thousands, except per share data)		
Basic and diluted EPS:			
Net (loss) attributable to Class A Stock	$ (44,265)(1)	19,538	$ (2.27)

	Year Ended December 31, 2001		
	Income (Loss)	Shares	Per Share Amounts
	(In thousands, except per share data)		
Basic and diluted EPS:			
Net (loss) attributable to Class A Stock	$ (7,201)(1)	19,184	$ (0.38)

	Year Ended December 31, 2000		
	Income (Loss)	Shares	Per Share Amounts
	(In thousands, except per share data)		
Basic EPS:			
Net income attributable to Class A Stock	$ 579(1)	18,916	$ 0.03
Effect of Dilutive Securities:			
Exercise of stock options		141	
Diluted EPS:			
Net income attributable to Class A Stock	$ 579	19,057	$ 0.03

(1) After deduction of Preferred Stock dividends of $218, $227 and $234 in 2002, 2001 and 2000 respectively.

(2) In 2002 and 2001, the conversion of the 4% and 6½% Preferred Stocks was excluded from the diluted EPS calculation due to the antidilutive effect.

Options to purchase 2,852,000, 2,815,000 and 3,161,000 shares of common stock were outstanding as of December 31, 2002, 2001 and 2000, respectively, of which 2,852,000, 2,815,000 and 2,957,000 options were not included in the computation of diluted EPS because of their anti-dilutive effect.

Note 11 Income Taxes

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
The components of current and deferred income tax expense (benefit) are:			
Current:			
State and local	$	$ 1,038	$
Federal		500	(2,737)
Foreign	274	409	229
Deferred:			
State and local	(22)	343	14
Federal	(4,687)	(3,368)	3,295
Foreign	6,214	(3,459)	(2,994)
Total	$ 1,779	$ (4,537)	$ (2,193)
The components of deferred income tax expense (benefit) are:			
Unrealized (losses)	$ (467)	$ (1,619)	$ (4,750)
Cost basis adjustment	1,547	1,593	1,593
Equity in earnings (losses) of affiliates	(3,337)	(7,260)	894
Loss from impairment of investments	(11,616)	(1,454)	
Net operating loss carryforwards	(4,456)	(71)	813
Deferred income	2,221	1,598	1,840
Valuation Allowance (*)	17,614		
Other	(1)	729	(75)
Total	$ 1,505	$ (6,484)	$ 315
The domestic and foreign components of (loss) income before income taxes are:			
Domestic	$ (7,150)	$ 5,106	$ (2,496)
Foreign	(35,118)	(16,617)	1,116
Total	$ (42,268)	$ (11,511)	$ (1,380)
A reconciliation of income taxes between the statutory and effective tax is as follows:			
Federal income tax (benefit) at 34%, 35% and 35%	$ (14,371)	$ (4,029)	$ (483)
Taxes on foreign income (below) U.S. rate, net of tax credits	(1,181)	(1,386)	(1,614)
State and local taxes net of federal effect		898	
Unbenefitted losses and impairment of investments *	17,614		
Other	(283)	(20)	(96)

Total effective tax: (4%), 39%,and 159%	$ 1,779	$ (4,537)	$ (2,193)

* Valuation allowance is composed of tax benefits on foreign net operating loss carryforwards of $6.6 million, realized and unrealized loss of investment in securities of $6.3 million and of loss from impairment of investment of $4.7 million.

As of December 31, 2002, the Company has U.S. federal net operating loss carryforwards of approximately $32 million that will expire in the years 2020 through 2022. The utilization of net operating loss carryforwards may be subject to substantial annual limitations if there has been a significant change in ownership . Such a change in ownership , as described in Section 382 of the Internal Revenue Code, may substantially limit the Company s utilization of the net operating loss carryforwards.

Other assets include approximately $5.6 million ($**11**million in 200**1**) of deferred tax assets which primarily represent the tax benefit of the temporary differences between the carrying values of the investments in the financial statements and their income tax bases and a $10.9 million asset ($6.5 million in 2001) representing a tax benefit with respect to the net operating loss carryforwards. Accounts and income taxes payable and accrued expenses include approximately $16.1million ($19.5 million in 2001) of deferred tax liability which primarily consists of tax liability provided on undistributed earnings of affiliates of approximately $6.3 million ($13.7 million in 2001).

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Note 12 Investments in Affiliates

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

	As of December 31,		
	2002	**2001**	**2000**
Bay Heart Limited (a)	37	37	37
Carmel Containers Systems Limited	21.8	21.8	21.8
Coral World International Limited	50	50	50
CUTe Ltd	20	20	
Epsilon Investment House Ltd.	20	20	20
Granite Hacarmel Investments Limited (Granite)	20.4	20.2	20.2
Hod Hasharon Sport Center (1992) Limited Partnership	50	50	50
Ophir Holdings Ltd.	42.5	42.5	42.5
Ophirtech Ltd.	42.5	42.5	42.5
Renaissance Investment Company Ltd.	20	20	20
Trinet Investment in High-Tech Ltd.	37.5	37.5	37.5
Trinet Venture Capital Ltd.(b) (c)	50	50	50

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

Year Ended December 31,		
2002	**2001**	**2000**

		(Dollars in thousands)	
Revenues	$ 718,831	$ 724,220	$ 843,152
Gross profit	174,404	158,057	183,680
Net income (loss)	(6,338)	12,452	36,799
Property and equipment	$ 344,573	$ 353,122	$ 266,123
Other assets	563,359	598,370	668,750
Total assets	$ 907,932	$ 951,492	$ 934,873
Total liabilities, including bank borrowings	$ 718,295	$ 730,513	$ 635,873

(a) At December 31, 2002, 2001 and 2000, the Company had a note receivable from Bay Heart Limited in the amount of $0.4 million.

(b) At December 31, 2001 and 2000, the Company had a non-interest bearing note receivable from Trinet Venture Capital Ltd. in the amount of $2.3 million and $2.5 million, respectively.

(c) On December 31, 2001, the Company acquired 50% of the holdings of Trinet Venture Capital Ltd (Trinet) in Smart Link Ltd., Peptor Ltd and Netformx Ltd for consideration of Capital notes, in the total amount of $ 2.3 million.

The carrying value of the Company s investments in shares of its publicly traded affiliates at December 31, 2002, amounted to $28.1 million and had a market value of $38.4 million, based upon quoted market prices of shares traded on the American Stock Exchange and the Tel Aviv Stock Exchange. There is no assurance that any of these investments could be realized at the quoted market price.

Note 13 Other Income.

Other revenues for the years ended December 31, 2002, 2001 and 2000 include accrual of guaranteed payments from Motorola relating to the investment in MIRS of $ 7.1 million, $7.1 million and $ 3.8 million respectively. In the year ended December 31, 2000, it includes also dividends received from MIRS amounting to $ 1.6 million.

Note 14 Segment Information

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

	Year Ended December 31,		
	2002	**2001**	**2000**
		(Dollars in thousands)	
Revenues:			
Finance	$ 10,543	$ 11,283	$ 16,512
Real estate income	7,871	18,872	9,981
Leisure-time	1,724	1,885	1,816
Intercompany adjustments	(72)	(804)	(488)
Total	$ 20,066	$ 31,236	$ 27,821

Equity in Earnings of Affiliates:			
Finance[b]	$ 54	$ 1,354	$ 2,745
Real estate rental[b]	(533)	(481)	2,915
Leisure-time[a]	570	1,486	1,418
Total	$ 91	$ 2,359	$ 7,078
Interest Income:			
Finance	$ 994	$ 1,293	$ 1,694
Real estate rental		95	
Intercompany adjustments	(32)	(146)	(488)
Total	$ 962	$ 1,242	$ 1,206
Interest Expense:			
Finance	$ 7,658	$ 10,385	$ 10,998
Real estate rental	761	1,591	2,732
Leisure-time	264	112	75
Intercompany adjustments	(30)	(145)	(488)
Total	$ 8,653	$ 11,943	$ 13,317
Pretax Operating (Loss) Income:			
Finance	$ (37,448)	$ (17,709)	$ (12,647)
Real estate rental	(549)	7,942	(1,933)
Leisure-time	(71)	204	197
Total	$ (38,068)	$ (9,563)	$ (14,383)
Income Tax (Benefit) Expense:			
Finance	$ 1,591	$ (7,889)	$ (2,246)
Real estate rental	153	3,261	42
Leisure-time	35	91	11
Total	$ 1,779	$ (4,537)	$ (2,193)
Total Assets for year end:			
Finance	$ 243,031	$ 300,234	$ 324,593
Real estate rental	69,196	73,596	125,017
Leisure-time	14,986	14,511	13,708
Intercompany adjustments	(3,514)	(4,508)	(16,690)
Total	$ 323,699	$ 383,833	$ 446,628

Note 14 Segment Information Continued

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Investments in Affiliates for year end:			
Finance[(b)]	$ 2,431	$ 1,884	$ 11,757
Real estate rental[(b)]	1,337	14,295	24,453
Leisure-time[(a)]	12,573	12,314	11,187
Total	$ 16,341	$ 28,493	$ 47,397
Capital Expenditures:			
Finance	$ 52	$ 214	$ 733
Real estate rental	899	1,769	15,893
Leisure-time	455	197	136
Total	$ 1,406	$ 2,180	$ 16,762
Depreciation and Amortization:			
Finance	$ 1,951	$ 1,805	$ 1,663
Real estate rental	(10)	640	1,253
Leisure-time	95	100	115
Total	$ 2,036	$ 2,545	$ 3,031

Corporate office expense is principally applicable to the financing operation and has been charged to that segment above. Revenues and pretax operating (loss) income above exclude equity in (losses) earnings of affiliates and minority interests. Investment in affiliates and equity in earnings of affiliates only includes the investment and equity in earnings of those affiliates whose operations are represented by the Company s segments.

(a) Operations in Australia, Israel and the United States.

(b) Operations in Israel.

The real estate rental segment consists of rental property owned in Israel and the United States leased to related and unrelated parties. The leisure-time segment consists Coral World International Limited (marine parks located around the world) and Country Club Kfar Saba (the Company s 51%-owned subsidiary located in Israel).

Note 15 Disclosures about Fair Value of Financial Instruments

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

(a) Cash and Cash Equivalents

For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value (see Note 1(j)).

(b) Deposits, Notes and Loans Receivable

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

(c) Investments

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

(d) Commitments

Due to the relatively short term of commitments discussed in Note 16, their contract value is considered to be their fair value.

(e) Deposits, Notes and Loans Payable and Debentures

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

	Year Ended December 31,			
	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Financial assets:				
Cash and cash equivalents	$ 1,557	$ 1,557	$ 7,973	$ 7,973
Deposits, notes and loans receivable	10,962	11,284	17,172	16,957
Investments	18,612	18,612	40,641	40,641
	$ 31,131	$ 31,453	$ 65,786	$ 65,571
Financial liabilities:				
Notes and loans payable	$ 114,257	$ 118,863	$ 122,805	$ 132,167
Debentures outstanding	22,546	23,169	21,560	20,742
	$ 136,803	$ 142,032	$ 144,365	$ 152,909

Note 16 Commitments and Contingencies

(a) The combined minimum annual lease payments on Ampal s corporate offices and Country Club Kfar Saba, in 2002 were $ 0.2 million. In the years 2003-2007, the combined annual lease payments on those premises, without giving effect to future escalations, will be in an aggregate amount of $ 1.3 million, and thereafter, an amount totaling $ 5 million. The lease of the corporate offices expires in 2009 and the Kfar Saba lease expires in 2037.

(b) AM-Hal provided a lien to Bank Hapoalim on AM- Hal properties in Rishon Le Zion and Hod Hashron to guarantee a loan of $12.7 million.

(c) The Company has issued guarantees on bank loans to its investees and subsidiaries totaling $15.3 million as follows:

(1) The Company provided a $4.8 million guarantee to AM Hal tenants .

(2) The Company provided a $5.7 million guarantee on indebtness incurred by Bay Heart.

(3) The Company provided a $4 million guarantee to Leumi with respect to the MIRS loan ($3.5 million if Motorola (Israel) Ltd. does not make a guaranteed payment to the Company in March 2003 and $0.5 million beginning in 2006 with respect to the Company s repayment obligation under the loan).

(4) The Company provided a $0.8 million guarantee to Galha (1960) Ltd, for the payment of the Company s subsidiary of a final judgment, if entered against the Company s subsidiary.

(d) At December 31, 2002, the Company had in place unused lines of credit in the aggregate amount of $ 5.1 million.

(e) The Company made a commitment to invest $3.2 million in Star II (2000 L.P.).

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

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

On October 15, 1998, the Company filed an appeal with the Israeli Supreme Court in Jerusalem. On September 30, 2001, the Supreme Court dismissed the appeal filed by the Company, on the grounds that the Company failed to timely produce a guarantee to cover Yakhin Hakal s expenses in the appeal. On November 1, 2001, the Company filed a petition to the Israeli Supreme Court, contending that the dismissal of an appeal due to a delay in producing guarantees as part of the appeal is unreasonable and that the law allowing this should be changed. The petition was withdrawn by the Company on October 6, 2002.

On December 30, 2001, the Company filed a motion to allow it to file a new appeal in this case. The Supreme Court dismissed the motion on September 10, 2002.

On October 12, 2001, the Company filed a request with the Tel-Aviv District Court for a preliminary injunction and other remedies in relation to the validity and enforceability of Etz Vanir s and Yakhin Mataim s decisions to redeem the debentures owned by the Company and to require the Company to surrender all of its preferred shares in Etz Vanir and Yakhin Mataim. On January 28, 2002, the Tel Aviv District Court dismissed the request. On March 12, 2002, the Company filed an appeal with regard to this decision with the Israeli Supreme Court and the appeal is scheduled to be heard on April 9 ,2003.
As of the date hereof, the Company cannot predict the outcome of these proceedings.

(g) In February 2000, a petition was filed against Sonol, a wholly-owned subsidiary of Granite, Paz Oil Company Ltd. and Delek, the Israeli Fuel Company Ltd., in the Jerusalem District Court to allow a class action suit regarding fixing the retail price of diesel fuel. The lawsuit, if certified as a class action, will be in the amount of NIS 249.6 million ($53 million). Sonol s share is NIS 58.6 million ($12 million). Sonol denies the claim and, based on legal advice, Sonol s management has concluded that there is a reasonable chance that the suit will not be certified

as a class action.

(h) In May 2001, a claim was filed in the Jerusalem District Court against Sonol, its subsidiary company, Sprint Motors Ltd., and four unrelated fuel companies by customers who purchased fuel products in filling stations, contending that the defendants charged an illegal service charge over a period of many years. The plaintiffs have requested the court to recognize their claim as a class action. The amount of the claim is NIS 5.30 however, should the court certify the class action, it will total approximately NIS 404 million ($85 million). From the claim, it is not clear as to what is Sonol s and its subsidiary s share of this amount. Granite s management and its legal counsel have advised the Company that it is unlikely that the claim will be certified as a class action.

(i) In June 2001, a claim was filed by customers against Supergas (Granite s wholly-owned consolidated subsidiary), alleging that the defendant made illegal periodic charges to its customers. The plaintiff applied to the Tel Aviv District Court to recognize the claim as a class action in a total amount of NIS 133 million ($28 million). Supergas s management, based on legal advice, is of the opinion that it is more likely than not that Supergas will prevail in this case.

(j) Three claims were lodged against Granite s formerly affiliated company and its past shareholders, which included Sonol, in the Haifa District Court. The total amount of the claims is approximately NIS 65 million ($14 million). The plaintiff s allegations concern the sale of fuel products pursuant to restrictive trade practices among the fuel companies and their affiliates. In the opinion of Sonol s legal counsel and the formerly affiliated company, the companies have a sound defense against the claims.

(k) In 1999, Sonol filed a claim against one of its agencies for approximately NIS 40 million (approximately $8 million) in the Tel Aviv District Court, on account of an unpaid debt and damages caused to Sonol, alleging that the agency violated the terms of the agency agreement by dealing with one of Sonol s competitors. The agency, in turn, filed a counterclaim in the amount of approximately NIS 62 million (approximately $13 million), stating various causes, including a claim that the contractual agreement between it and Sonol is a restrictive agreement. In the opinion of Sonol s management, based primarily on the opinion of Sonol s legal counsel, the prospects of Sonol s claim against the agency relating to amounts owed to Sonol are good and, regarding the amount claimed for damages on account of the violation of the agency agreement, such amount is subject to deliberation by the court. Regarding the prospects of the agency s counterclaim, Sonol s legal counsel are unable, at this time, to estimate its prospects, insofar as it relates to the claim of a restrictive agreement. Should the claim of a restrictive agreement be rejected by the court, the prospects of the counterclaim will not be favorable. Currently, the dispute has been referred to mediation which was unsuccessful.

(l) A class action was filed in april 1999 and was certified by the Tel-Aviv District Court against Supergas and four other gas companies for a declaratory judgment regarding the responsibility of the gas companies to refund to their customers payments which were paid for periodic examinations which were not performed. Supergas filed for permission to appeal this decision to the Israeli Supreme Court. In the opinion of the company s management, Supergas has recorded an adequate provision in its books for any potential exposure.

(m) In arbitration between the Israeli Fuel Authority and the organization of the owners of fuel stations, the arbitrator ordered the Fuel Authority to reimburse the fuel- stations owner's for depreciation on their investments in stations. The Arbitrator's Order was approved by the District Court. The Fuel Authority demanded that the fuel companies pay such payments. As a result of the arbitration, twenty five third-party claims were filed against Sonol (a subsidiary of Granite), in the total amount of NIS 43 million ($9 million). All of the claims were dismissed in October 2002. An appeal was filed to the Supreme Court. Sonol's legal counsel believes that it is not likely that the appeal will be granted.

(n) On December 2, 1997, Kaniel, the Israeli Company for Tin Containers Ltd. (Kaniel) filed a suit against the Company in the Tel Aviv District Court, in the amount of NIS 3,623,058 ($0.8 million). The suit relates to eight loans given to Kaniel by the Company in 1984. Kaniel claimed that the Company's actions in connection with the loans were forbidden under the Israeli Interest Law. On November 24, 2002, the Tel Aviv District Court dismissed the claim.

(o) A petition to certify a class action against MIRS in the amount of NIS 170 million ($36 million) was filed in the Tel Aviv District Court in September 2001. The claim is in connection with the change in MIRS tariffs resulting from the implementation of MIRS own dialing prefix, which replaced its previous dialing prefix, the Tel-Aviv area code. As a result, persons in the Tel Aviv area code claimed that they are subject to higher tariffs than those they had been subject to under MIRS's previous dialing prefix. MIRS' management estimates the maximum exposure to be substantially less than the amount claimed.

(p) A petition to certify a class action against MIRS and the other three cellular operators in Israel in the total amount of NIS 600 million ($127 million) was filed in the Tel Aviv District Court in May 2002. The claim involves the inter-connect fees that were collected from the customers of the other operators with regard to phone calls that were made to voice recorder applications through the cellular operators' dialing numbers. At this stage, the Company cannot estimate the impact this claim will have on it.

(q) The Israeli Income Tax Authority conducted a review of Am-Hal Ltd., the Company's wholly-owned subsidiary, in 2000 and 2001. Following the review, the Income Tax Authority assessed Am-Hal for additional taxes for the years 1995-1999. Am-Hal disputed the assessment and filed an appeal, based on its disagreement with the Income Tax Authority concerning the proper methodology for calculating nursing home revenues. In January 2003, AM-Hal and the Tax Authority reached an agreement that was approved as a Court ruling pursuant to which income in the aggregate amount of approximately $1.4 million will be added for the years 1995 1999. The financial statements fully reflect the impact of this increased income reported for tax purposes.

(r) In May 2002, the Israeli Income Tax Authority issued an assessment to Ampal (Israel) Ltd., the Company's wholly-owned subsidiary, for payment of approximately NIS 34 million ($7,177,538) for the tax years 1997-2000. Ampal (Israel) filed an appeal regarding this assessment and that it is reasonably possible that the appeal will be granted. In addition, the Company has previously established a reserve in the amount of NIS 10 million ($2,111,040) in connection with potential tax liabilities for these tax years.

(s) On January 1, 2002, Galha (1960) Ltd. (Galha) filed a suit against the Company and other parties, including directors of Paradise Industries Ltd. (Paradise) appointed by the Company, in the Tel Aviv District Court, in the amount of NIS 8.9 million ($1.9 million). Galha claimed that the Company, which was a shareholder of Paradise, and another shareholder of Paradise, misused funds that were received by Paradise from an insurance company for the purpose of reconstructing an industrial building owned by Galha and used by Paradise which burnt down. Paradise is currently involved in liquidation proceedings. Ampal issued a guarantee in favor of Galha for the payment of an amount of up to NIS 4.0 million ($8.4 million) if a final judgment against the Company will be given. At this stage, the Company cannot estimate the impact this claim will have on it.

(t) Legal claims arising in the normal course of business have been filed against subsidiaries and affiliates of the Company. Based upon the opinions of legal counsel, the Company's management believes that all provisions made are sufficient.

Note 17 Subsequent Events

In January 2003, the Company entered into an agreement for the sale of its holdings in Carmel Containers Systems Ltd., a packaging manufacturer based in Israel (Carmel), for approximately $3.5 million. The sale of Ampal's shares of Carmel is contingent upon Carmel's acquisition of another packaging company, Best Carton Ltd., as well as obtaining other legal authorizations and regulatory approvals.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

MANAGEMENT

The following table sets forth certain information regarding Ampal's directors and executive officers as of March 9, 2003:

Name	Position
Yosef A. Maiman	Chairman of the Board of Directors and Director

Jack Bigio (1)	President, Chief Executive Officer and Director
Leo Malamud(1)	Director
Michael Arnon(2) (3)	Director
Dr. Joseph Yerushalmi(1)	Director
Yehuda Karni(1) (2) (3)	Director
Eitan Haber(2) (3)	Director
Shlomo Shalev	Senior Vice President-Investments
Dafna Sharir	Senior Vice President-Investments
Irit Eluz	CFO, Vice President - Finance and Treasurer
Yoram Firon	Vice President-Investments and Corporate Affairs and Secretary
Amit Mantzur	Vice President-Investments
Giora Bar-Nir	Controller
Alla Kanter	Vice President-Accounting

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

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

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

(3) Member of the Stock Option and Compensation Committee

(4) Mr. Mantzur was appointed Vice President Investments of Ampal on March 24, 2003.

In 2002, the Board of Directors met eight times and acted once by written consent; the Executive Committee did not meet and did not act by written consent; and the Audit Committee met six times and did not act by written consent. The Stock Option and Compensation Committee met two times and did not act by written consent and the Stock Option Committee, the predecessor committee to the Stock Option and Compensation Committee, met once during the fiscal year and did not act by written consent. All directors attended more than 75% of the aggregate of (1) the total number of Board of Directors' meetings held during the period in 2002 for which such individual was a director and (2) the total number of meetings held by all committees of the Board on which such individual served in 2002 (during the period of such service).

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

YOSEF A. MAIMAN, 57, has been the Chairman of the Board of Ampal since April 25, 2002. Mr. Maiman has been President and Chief Executive Officer of Merhav Mnf. Ltd. (Merhav), one of the largest international project development companies based in Israel, since its founding in 1975. Mr. Maiman is also the Chairman of the Board of Directors of Channel Ten, a commercial television station in Israel, a director of Eltek, Ltd. (Eltek), a developer and manufacturer of printed circuit boards, a member of the Board of Directors of the Middle East Task Force of the New York Council on Foreign Relations and Honorary Consul to Israel from Peru. Mr. Maiman is also member of the Board of Trustees of the Tel Aviv University, Chairman of the Israeli Board of the Jaffee Center for Strategic Studies at Tel Aviv University, a member of the Board of Governors of Ben Gurion University, and the Chairman of the Board of Trustees of the International Policy Institute for Counter Terrorism.

JACK BIGIO, 37, has been the President and Chief Executive Officer of Ampal since April 25, 2002, and a director of Ampal since March 2002. From 1998 until April 2002, Mr. Bigio held various officer positions at Merhav, most recently as the Senior Vice President - Operations and Finance. Mr. Bigio is also a director of Eltek. He has been a director of Ampal since March 6, 2002.

LEO MALAMUD, 51, has been a director of Ampal since March 2002. Since 1996, Mr. Malamud was the Senior Vice President of Merhav. Mr. Malamud is also a director of Eltek. He has been a director of Ampal since March 6, 2002.

MICHAEL ARNON, 77, was Chairman of the Board of Directors of Ampal from November 1990 until July 1994, when he retired. Mr. Arnon has been a director of Ampal since 1986. From July 1986 until November 1990, Mr. Arnon was President and Chief Executive Officer of Ampal.

Dr. JOSEPH YERUSHALMI, 65, has been Senior Vice President - Head of Energy and Infrastructure Projects of Merhav since 1995. He has been a director of Ampal since August 16, 2002.

YEHUDA KARNI, 74, was a senior partner in the law firm of Firon Karni Sarov & Firon, from 1961 until his retirement in 2000. He has been a director of Ampal since August 16, 2002.

EITAN HABER, 63, was the Head of Bureau for the former Prime Minister of Israel, Yitzhak Rabin, from July 1993 until November 1995. Since 1996, Mr. Haber has been the President and Chief Executive Officer of Geopol Ltd., which represents the Korean conglomerate Samsung in Israel and the Middle East; Kavim Ltd., a production and project development company; and Adar Real Estate Ltd., a real estate company. Mr. Haber is also a member of various non-profit organizations. He has been a director of Ampal since August 16, 2002.

SHLOMO SHALEV, 41, has been Senior Vice President - Investments since May 2002. From August 1997 through April 2002, Mr. Shalev was Vice President in Ampal Industries (Israel) Ltd, a wholly owned subsidiary of the Company. From August 1994 through July 1997, Mr. Shalev was the Israeli Consul for Economic Affairs in the northwest region of the Unites States.

DAFNA SHARIR, 34, has been Senior Vice President - Investments since May 2002. From March 1999 through April 2002, Ms. Sharir was a Director of Mergers and Acquisitions of Amdocs Limited. From July 1998 through February 1999, Ms. Sharir was an international tax consultant at Kost Forer & Gabay, a member of Ernst & Young International.

IRIT ELUZ, 36, has been the Chief Financial Officer, Vice President - Finance and Treasurer since May 2002. From January 2000 through April 2002, Ms. Eluz was the Associate Chief Financial Officer of Merhav. From June 1995 through December 1999, Ms. Eluz was the Chief Financial Officer of Kamor Group.

YORAM FIRON, 34, has been Secretary and Vice President - Investments and Corporate Affairs since May 2002. During the preceding five years, Mr. Firon was a Vice President of Merhav and a partner in the law firm of Firon Karni Sarov & Firon.

AMIT MANTSUR, 33, has been Vice President Investments since March 2003. From September 2000 through December 2002, Mr. Mantsur served at Alrov Group as Strategy & Business Development Manager. From February 1997 through September 2000, Mr. Mantsur was a projects manager at the Financial Advisory Services of KPMG Somekh Chaikin.

GIORA BAR-NIR, 46, has been the Controller since March 2002. During the preceding five years, Mr. Bar-Nir was the Controller of the Israeli subsidiaries of Ampal.

ALLA KANTER, 45, has been Vice President-Accounting since September 1995. Ms. Kanter was the Controller from August 1990 until March 2002.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Ampal's executive officers and directors, and persons who own more than 10% of a registered class of Ampal's equity securities, to file with the Securities and Exchange Commission initial statements of beneficial ownership (Form 3), and statements of changes in beneficial ownership (Forms 4 and 5), of Class A Stock of Ampal.

Nitsan Yanovski, the Vice President - Business Development of Ampal from May 21, 2002 until his retirement at December 31, 2002, did not file a Form 3 reporting his initial beneficial ownership of equity securities of Ampal nor did he file a Form 4 reporting the grant of stock options by Ampal to him on August 16, 2002. Each of Giora Bar-Nir, Shlomo Shalev, Dafna Sharir and Yoram Firon did not timely file a Form 3 reporting their respective initial beneficial ownership of equity securities of Ampal.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The table below presents information regarding remuneration paid or accrued for services to Ampal and its subsidiaries by the executive officers named below during the three fiscal years ended December 31, 2002, 2001 and 2000.

				Annual Compensation		
Name and Principal Position	**Year**	**Salaries**	**Bonus**	**Other Annual Compensation**(10)	**Long-Term Compensation Awards Number of Securities Underlying Options** (11)	**All Other Compensation**(16)
		$	$	$		$
Yosef A. Maiman(1)						
Chairman of the Board	2002	324,376		15,765	250,000	410
Jack Bigio (2)						
President and CEO	2002	280,130(8)		43,498	150,000	40,740
Nitsan Yanovski (3)	2002	194,975	77,712	27,526	78,500	98,711
(Former Vice President	2001	142,691	75,634	17,984	20,000(15)	34,329
Business	2000	132,187	60,000	13,048	495,000(15)	93,237
Development)						
Shlomo Shalev (4)	2002	149,225	63,240	27,815	90,000	37,279
Senior Vice President	2001	143,093	61,406	17,408	20,000	36,137
Investments	2000	146,873	65,000	14,178	545,000	39,300
Alla Kanter (5)	2002	133,598	11,105		78,500	18,757
(Vice President-	2001	133,538	11,105		15,000(14)	18,138
Accounting and	2000	126,036	10,476		15,000(14)	17,007
Controller)						
Raz Steinmetz (6)	2002	82,993		9,792		189,707(9)
(Former CEO and	2001	318,344	98,459	24,859	30,000(12)	74,997
President)	2000	175,369	49,822	20,555	655,000(12)	51,644
Shlomo Meichor(7)	2002	170,525	48,427	28,784		49,514
(FormerVice President-	2001	169,567	53,578	15,205	24,000(13)	51,110
Finance and Treasurer)	2000	156,150	44,056	14,849	374,000(13)	46,281

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(1) Mr. Maiman has been employed by Ampal since April 25, 2002 as Chairman of the Board. Mr. Maiman is entitled to receive a base salary of $420,000 (payable in NIS) per annum (plus benefits).

(2) Mr. Bigio has been employed by Ampal since April 25, 2002 as President and CEO. Mr. Bigio is entitled to receive a base salary of $250,000 (payable in NIS) per annum (plus benefits).

(3) Mr. Yanovski was appointed Vice President Business Development since May 21, 2002. Mr. Yanovski retired from Ampal on December 31, 2002 (the amounts include salary for an additional three months).

(4) Mr. Shalev was appointed Senior Vice President of Investments since May 21, 2002. Mr. Shalev is entitled to receive a base salary of $150,000 (payable in NIS) per annum (plus benefits).

(5) Ms. Kanter has been Vice President Accounting of Ampal since September 1995 and Controller of Ampal since August 1990.

(6) Mr. Steinmetz was employed by Ampal since January 1, 1997 untill April 25 ,2002 and was appointed CEO and President effective July 1, 1999. Mr. Steinmetz was entitled to receive a base salary of $250,000 (payable in NIS) per annum (plus benefits). Mr. Steinmetz resigned from all positions he held in Ampal on April 25, 2002.

(7) Mr. Meichor had been employed by Ampal since March 1, 1998, and served as Vice President-Finance and Treasurer of Ampal from April 1, 1998 until May 21, 2002. Mr. Meichor receives a base salary of $164,000 per annum, adjusted annually in accordance with the United States Consumer Price Index (payable in NIS) plus benefits and use of a car. Based on his agreement with Ampal, Mr. Meichor received an additional 8 months of salary (2 months notice and 6 months as the result of a change in control of Ampal). Mr. Meichor ceased to receive additional salary from Ampal on January 19, 2003.

(8) Including $86,481 payment advance that have been returned on February 1, 2003.

(9) Consists of payment for accrued vacation.

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

(11) Represents the number of shares of Class A Stock underlying options granted to the named executive officers.

(12) Expired on April 25, 2002.

(13) Expired on January 26, 2003.

(14) Expired on February 20, 2003.

(15) Expired on January 7, 2003.

(16) Comprised of Ampal (Israel)'s contribution pursuant to: (i) Ampal (Israel)'s pension plan, (ii) Ampal's (Israel)'s education fund, (iii) use of car and (iv) use of automobile.

Fiscal Year-End Option Values

	Shares Acquired on Exercise	**Value Realized**	**Number of Securities Underlying Unexercised Options at Fiscal Year-End**[1]	
Name			**Exercisable**	**Unexercisable**
Yosef A. Maiman			15,625	234,375
Jack Bigio			9,375	140,625
Nitsan Yanovski	40,000	$240,000	499,906	73,594
Shlomo Shalev	40,000	$240,000	550,625	84,375
Alla Kanter	30,000	$180,000	19,906	73,594

Raz Steinmetz	60,000	$360,000	
Shlomo Meichor	48,000	$288,000	372,000

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(1) This table represents the total number of shares of Class A Stock subject to stock options held by each of the named executive officers as of December 31, 2002. None of the outstanding options are in-the-money.

Option Grants In Last Fiscal Year

The following table sets forth certain information regarding stock options granted to purchase our Class A Stock to our named executive officers during fiscal year 2002:

Annual Compensation

Name	Option Plan	Number of Securities Underlying Option Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Market Price on Date of Grant	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term	
							5%	10%
Yosef A. Maiman	2000	250,000	19%	$ 3.12	$ 3.12	08-15-12	$ 490,538	$ 1,234,119
Jack Bigio	2000	150,000	12%	$ 3.12	$ 3.12	08-15-12	$ 294,323	$ 745,871
Nitsan Yanovski	2000	78,500	6%	$ 3.12	$ 3.12	08-15-12	$ 154,029	$ 390,339
Shlomo Shalev	2000	90,000	7%	$ 3.12	$ 3.12	08-15-12	$ 176,594	$ 447,523
Alla Kanter	2000	78,500	6%	$ 3.12	$ 3.12	08-15-12	$ 154,029	$ 390,339

Other Benefits

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

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

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

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

Ampal maintains a savings plan (the Savings Plan) for its eligible employees pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code). Eligible employees are all employees of Ampal except non-resident aliens, night-shift employees and employees represented by a collective bargaining unit. Participation by employees in the Savings Plan is voluntary. Participating employees may direct that a specific percentage of their annual compensation (up to 15%) be contributed to a self-directed 401(k) savings account. The amount which any employee could contribute to his or her 401(k)savings account in 2002 was limited under the Code to $11,000. Effective January 1, 1996, the Savings Plan was amended so that Ampal matches 50% of each employee's contribution up to a maximum of 3% of the employee's compensation. Employees who were eligible to participate in the Savings Plan as of December 31, 1995, are 100% vested at all times in the account balances maintained in their 401(k) savings account. Employees who became eligible to participate in the Savings Plan on or after January 1, 1996, become vested in amounts contributed by Ampal depending on the number of years of service, as provided in the following table:

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

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

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

Compensation of Directors

Directors of Ampal (other than Mr. Maiman and Mr. Bigio) received $500 per Board meeting attended until December 16, 2002. Thereafter, directors of Ampal shall receive $750 per Board meeting attended. The Chairman of the Board receives $2,000. Such persons also receive the same amount for attendance at meetings of committees of the Board, provided that such committee meetings are on separate days and on a day other than the day of a regularly scheduled Board meeting.

The following table sets forth certain information regarding stock options granted to purchase our Class A Stock to our directors during the three fiscal years ended December 2002, 2001 and 2000.

Year	**2002**	**2001**	**2000**
Yosef A.Maiman (3)	250,000		
Jack Bigio (5)	150,000		
Leo Malmud (5)	150,000		
Dr. Joseph Yerushalmi (4)	100,000		
Eitan Haber (4)	15,000		
Michael Arnon	15,000	5,000	5,000
Yehuda Karni (4)	15,000		
Daniel Steinmetz (1)		10,000	10,000
Raz Steinmetz (1)		30,000	655,000
Yaacov Elinav (1)		5,000	5,000
Kenneth L. Henderson (1)		5,000	5,000
Hillel Peled (2)		5,000	5,000

Avi A. Vigder (1)	5,000	5,000
Eliyahu Wagner (2)	5,000	5,000
Benzion Benbassat (1)	5,000	5,000

(1) Resigned April 25, 2002.
(2) Did not stand for re-election at the Annual Meeting of Shareholders held on August 16, 2002.
(3) Since April 25, 2002.
(4) Since August 16, 2002.
(5) Since March 6, 2002.

Stock Option Plan

In March 1998, the Board approved a Long-Term Incentive Plan ("1998 Plan") permitting the granting of options to all employees, officers, directors and consultants of the Company and its subsidiaries to purchase up to an aggregate of 400,000 shares of Class A Stock. The 1998 Plan was approved by a majority of the Company's shareholders at the June 19, 1998 annual meeting of shareholders. The plan remains in effect for a period of ten years. As of December 31, 2002, 204,500 options of the 1998 Plan are outstanding.

On February 15, 2000, the Stock Option Committee approved a new Incentive Plan (2000 Plan), under which the Company has reserved 4 million shares of class A Stock, permitting the granting of options to all employees, officers and directors. The 2000 Plan was approved by the Board of Directors at a meeting held on March 27, 2000 and was approved by a majority of the Company's shareholders at the June 29, 2000 annual meeting of shareholders. The plan remains in effect for a period of ten years. As of December 31, 2002, 2,647,500 options of the 2000 Plan are outstanding.

The options granted under the 1998 Plan and the 2000 Plan (collectively, the Plans) may be either incentive stock options, at an exercise price to be determined by the Stock Option and Compensation Committee (the Committee) but not less than 100% of the fair market value of the underlying options on the date of grant, or non-incentive stock options, at an exercise price to be determined by the Committee. The Committee may also grant, at its discretion, restricted stock, dividend equivalent awards, which entitle the recipient to receive dividends in the form of Class A Stock, cash or a combination of both and stock appreciation rights, which permit the recipient to receive an amount in the form of Class A Stock, cash or a combination of both, equal to the number of shares of Class A Stock with respect to which the rights are exercised multiplied by the excess of the fair market value of the Class A Stock on the exercise date over the exercise price. The options granted under the Plans were granted either at market value or above.

Under each of the Plans, all granted but unvested options become immediately exercisable upon the occurrence of a change in control of the Company. On February 26, 2002, the controlling shareholder of the Company, Rebar Financial Corp., sold all of its stock in the Company to Y.M. Noy Investments Ltd. Accordingly, all options granted but unvested under the Plans were immediately exercisable.

The Company accounts for all plans under APB Opinion No. 25, under which no compensation costs were incurred in the years ended December 31, 2000, 2001 and 2002. If compensation cost for the options under the above Plans had been determined in accordance with SFAS No. 123, the Company's net income (loss) and EPS would have been reduced Beneficial Owners and Management for additional information regarding the effect of the proposed stock sale on some outstanding options.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Until April 25, 2002, members of the Executive Committee of the Board of Directors, which functioned as the compensation committee of Ampal, included: Mr. Daniel Steinmetz Chairman of the Board of Directors of Ampal; Mr. Hillel Peled; President of Inveco International Inc., and Mr. Raz Steinmetz; Chief Executive Officer and President of Ampal. Additionally, until August 16, 2002, Ampal s Stock Option Committee of the Board of Directors, which administered Ampal s stock option plans, was composed of the following board members who also served as members of the Audit Committee of the Board of Directors until August 16, 2002: Mr. Michael Arnon, Mr. Hillel Peled and Mr. Eliyahu Wagner. Since August 16, 2002, the newly formed Stock Option and Compensation Committee functions as both the compensation and stock option committee of Ampal. The members of this Committee include Mr. Michael Arnon, Mr. Yehuda Karni and Mr. Eitan Haber. Since August 16, 2002, the members of the Stock Option and Compensation Committee also serve as members of the Audit Committee of Ampal.

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

Equity Compensation Plan Information[1]

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,852,000	14.77	1,548,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	2,852,000	14.77	1,548,000

(1) All information provided as of December 31, 2002.

PRINCIPAL SHAREHOLDERS OF AMPAL

The following table sets forth information as of March 9, 2003, as to the holders known to Ampal who beneficially own more than 5% of the Class A Stock, the only outstanding series of voting securities of Ampal. For purposes of computation of the percentage ownership of Class A Stock set forth in the table, conversion of any 4% Cumulative Convertible Preferred Stock (the 4% Preferred Stock) and 6 1/2% Cumulative Convertible Preferred Stock (the 6 1/2% Preferred Stock) owned by such beneficial owner has been assumed, without increasing the number of shares of Class A Stock outstanding by amounts arising from possible conversions of convertible securities held by shareholders other than such beneficial owner. As of March 9, 2003, there were 19,684,948 (not including treasury shares) shares of Class A Stock of Ampal outstanding. In addition, as of March 9, 2003, there were 583,530 non-voting shares of 6 1/2% Preferred Stock outstanding (each convertible into 3 shares of Class A Stock) outstanding and 133,510 non-voting shares of 4% Preferred Stock outstanding (each convertible into 5 shares of Class A Stock).

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Security Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner	Title of Class	Number of Shares and Nature of Beneficial Ownership	Percent of Outstanding Shares of Class A Stock
Y.M Noy Investments Ltd., of 33 Havazelet Hasharon st., Herzliya, Israel	Class A Stock	11,713,232shs. [1]	59.5%
Yosef A. Maiman Y.M Noy Investments Ltd., of 33 Havazelet Hasharon st., Herzliya, Israel	Class A Stock	11,744,482shs. [1][2]	59.66%

Ohad. Maiman Y.M Noy Investments Ltd., of 33 Havazelet Hasharon st., Herzliya, Israel	Class A Stock	11,713,232shs. (1)	59.5%
Noa. Maiman Y.M Noy Investments Ltd., of 33 Havazelet Hasharon st., Herzliya, Israel	Class A Stock	11,713,232shs. (1)	59.5%

(1) Consists of 11,713,232 shares of Class A Stock held directly by Y.M Noy Investments Ltd. Yosef A. Maiman owns 100% of the economic shares and one-third of the voting shares of Noy. In addition, Mr. Maiman holds an option to acquire the remaining two-thirds of the voting shares of Noy (which are currently owned by Ohad Maiman and Noa Maiman, the son and daughter, respectively, of Mr. Maiman).

(2) Includes 31,250 shares of Class A Stock underlying options which are currently exercisable by Mr. Maiman.

Security Ownership of Management

The following table sets forth information as of March 9, 2003 as to each class of equity securities of Ampal or any of its subsidiaries beneficially owned by each director and named executive officer of Ampal listed in the Summary Compensation Table and by all directors and named executive officers of Ampal as a group. All ownership is direct unless otherwise noted. The table does not include directors or named executive officers who do not own any such shares:

Name	**Number of Shares and Nature of Beneficial Ownership of Class A Stock**	**Percent of Outstanding Shares of Class A Stock**
Yosef Maiman	11,744,482(1)	59.66%
Jack Bigio	18,750(2)	*
Shlomo Shalev	11,250(2)	*
Alla Kanter	9,812(2)	*
Leo Malamud	18,750(2)	*
Dr. Josef Yerushalmi	12,500(2)	*
Eitan Haber	1,876(2)	*
Yehuda Karni	1,876(2)	*
Michael Arnon	16,876(2)	
Raz Steinmetz	0	0
Shlomo Meichor	0	0
Nitsan Yanovsky	0	0
All Directors and Executive Officers as a Group	11,836,172	60.13%

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

(1) Attributable to 11,713,232 shares of Class A Stock held directly by Y.M Noy Investments Ltd.. See Security Ownership of Certain Beneficial Owners. In addition, this represents 31,250 shares underlying options for Yosef Maiman which are presently exercisable.

(2) Represents shares underlying options which are presently exercisable or exercisable in 60 days..

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Audit Committee of Ampal has the duty and responsibility of approving all transactions between Ampal, on the one hand, and any officer, director, or affiliate thereof, on the other hand, or in which any officer, director or affiliate has a material interest. The Audit Committee reviews and passes upon the fairness of any business dealings and arrangements between Ampal and any such affiliated party. With certain exceptions, Ampal may not enter into transactions with any officer, director or principal shareholder of Ampal, without first obtaining the approval of the Audit Committee or a majority of the disinterested members of the Board of Directors or the shareholders.

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

Until October 15, 2002 Ampal subleased an office at 660 Madison Avenue in New York City from Cavallo. The annual rent for this sublease was $50,000. Avi Vigder, a former member of the Board of Directors of Ampal, is a controlling person of Cavallo.

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ITEM 14. CONTROLS AND PROCEDURES

Within the 90-day period prior to the date of this Report, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Ampal's disclosure controls and procedures. Based upon that evaluation, Ampal's management, including its Chief Executive Officer and Chief Financial Officer, concluded that these controls and procedures are effective.

There have been no significant changes in Ampal's internal controls or in other factors that could significantly affect internal controls subsequent to the date that the Company carried out its evaluation.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

		Page Reference
(1)	Financial Statements and Supplementary Data	
	Ampal-American Israel Corporation and Subsidiaries	
	Report of Independent Auditors	
	Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000	
	Consolidated Balance Sheets as at December 31, 2002 and 2001	
	Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Comprehensive Income for the years ended December 31, 2002, 2001 and 2000
Notes to Consolidated Financial Statements

Supplementary Data:

Selected quarterly financial data for the years ended December 31, 2002 and 2001

(2) Financial Statement Schedules

(i) Schedule of Representative Rates of Exchange between the U.S. dollar and New Israeli Shekel for three years ended December 31, 2002

Representative Rates of Exchange
Between the U.S. Dollar and the New Israeli Shekel
For the Three Years Ended December 31, 2002

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

	2002	**2001**	**2000**
March 31	4.668	4.192	4.026
June 30	4.769	4.165	4.084
September 30	4.871	4.355	4.024
December 31	4.737	4.416	4.041

(ii) Consolidated financial statements filed pursuant to Rule 3-09 of Regulation S-X

	Page Reference
Granite Hacarmel Investments Limited and Subsidiaries	
Report of Certified Public Accountants	
Consolidated Balance Sheets as at December 31, 2002 and 2001	
Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000	
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000	
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	
Notes to Consolidated Financial Statements	
OphirTech Ltd.	
Report of Certified Public Accountants	*
Consolidated Balance Sheets as at December 31, 2002 and 2001	
Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000	
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000	
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	

Notes to Consolidated Financial Statements

Trinet Venture Capital Ltd.

Report of Certified Public Accountants

Consolidated Balance Sheets as at December 31, 2001 and 2000

Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2001, 2000 and 1999

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

AM-HAL Ltd.

Bay Heart Ltd.

Carmel Container Systems Ltd.

Coral World International Limited

Country Club Kfar Saba Limited

Epsilon Investment House Ltd.

Hod Hasharon Sport Center Ltd.

Hod Hasharon Sport Center (1992) Limited Partnership

Ophir Holdings Ltd.

Renaissance Investment Co. Ltd.

Shmey-Bar Real Estate 1993 Ltd.

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