
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2018

OR

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

OR

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

Date of event requiring this shell company report.....

For the transition period from _____ to _____

Commission File Number 001-35284

ELLOMAY CAPITAL LTD.

(Exact Name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

9 Rothschild Boulevard, 2nd floor

Tel Aviv 6688112, Israel

(Address of principal executive offices)

Kalia Weintraub, Chief Financial Officer

Tel: +972-3-797-1111; Facsimile: +972-3-797-1122

9 Rothschild Boulevard, 2nd floor

Tel Aviv 6688112, Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
_____ Ordinary Shares, par value NIS 10.00 per share	_____ NYSE American LLC

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

None
Title of Class

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
Title of Class

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 10,675,508¹ ordinary shares, NIS 10.00 par value per share.

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

¹ Does not include a total of 258,046 ordinary shares held at that date as treasury shares under Israeli law, all of which were repurchased by Ellomay. For so long as such treasury shares are owned by Ellomay they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to Ellomay's shareholders nor are they entitled to participate in, be voted at or be counted as part of the quorum for, any meetings of Ellomay's shareholders.

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.
† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

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INTRODUCTION

The following is the Report on Form 20-F of Ellomay Capital Ltd., or the Report. Unless the context in which such terms are used would require a different meaning, all references to “Ellomay,” “us,” “we,” “our” or the “Company” refer to Ellomay Capital Ltd. and its consolidated subsidiaries.

All references to “€,” “euro” or “EUR” are to the legal currency of the European Union, all references to “NIS” or “New Israeli Shekel” are to the legal currency of Israel and all references to “\$,” “dollar,” “US\$,” “USD” or “U.S. dollar” are to the legal currency of the United States of America.

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

All trademarks, service marks, trade names and registered marks used in this report are trademarks, trade names or registered marks of their respective owners.

Statements made in this report concerning the contents of any agreement, contract or other document are summaries of such agreements, contracts or documents and are not complete description of all of their terms. If we filed any of these agreements, contracts or documents as exhibits to this report or to any previous filing with the Securities and Exchange Commission, or SEC, you may read the document itself for a complete understanding of its terms.

Effective December 31, 2017, we changed the presentation currency of our consolidated financial statements from the US dollar to the euro to better reflect the profile of our assets, revenues, costs and cash flows, which are primarily generated in euro, and hence, to better present our financial performance. All comparative financial information has been restated into euro in this annual report.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this report on Form 20-F contains forward-looking statements. Some of the statements under “Item 3.D: Risk Factors,” “Item 4: Information on Ellomay,” “Item 5: Operating and Financial Review and Prospects” and elsewhere in this report, constitute forward-looking statements. These statements relate to future events or other future financial performance, and are identified by terminology such as “may,” “will,” “should,” “expect,” “scheduled,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “aim,” “potential,” or “continue” or the negative of those terms or other comparable terminology, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements contained in this report are based on current expectations and beliefs concerning future developments and the potential effects on our business. There can be no assurance that future developments actually affecting us will be those anticipated. These forward-looking statements involve a number of risks, uncertainties or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements, including the following:

- dependency on the availability of financial incentives and government subsidies and on governmental regulations for our renewable energy operations and the potential reduction or elimination, including retroactive amendments, of the government subsidies and economic incentives applicable to, or amendments to regulations governing the, renewable energy markets in which we operate or to which we may in the future enter;*
- risks related to projects that are in the development stage due to the inability to obtain or maintain licenses or project finance;*
- our contractors’ technical, professional and financial ability to deliver on and comply with their operation and maintenance undertakings in connection with the operation of our renewable energy facilities;*
- defects in the components of the renewable energy facilities we operate;*
- risks relating to operations in foreign countries, including cross currency movements, payment cycles and tax issues;*
- changes in the prices of energy or in the components or raw materials required for the production of renewable energy;*
- the market, economic and political factors in the countries in which we operate;*
- weather conditions and various meteorological and geographic factors;*
- our ability to maintain and gain expertise in the energy market, and to track, monitor and manage the projects which we have undertaken;*
- our ability to meet our undertakings under various financing agreements, including to our debenture holders, and our ability to raise additional equity or debt financing in the future;*

- *the risks we are exposed to due to our holdings in U. Dori Energy Infrastructures Ltd. and Dorad Energy Ltd.;*
- *the risks we are exposed to due to our involvement in Waste-to-Energy, or WtE, projects in the Netherlands;*
- *fluctuations in the value of currency and interest rates;*
- *the price and market liquidity of our ordinary shares;*
- *the fact that we may be deemed to be an “investment company” under the Investment Company Act of 1940 under certain circumstances (including as a result of the investments of assets following the sale of our business), and the risk that we may be required to take certain actions with respect to the investment of our assets or the distribution of cash to shareholders in order to avoid being deemed an “investment company”;*
- *our plans with respect to the management of our financial and other assets and our ability to identify, evaluate and consummate additional suitable business opportunities and strategic alternatives; and*
- *the resolution of existing litigation and the possibility of future litigation.*

Assumptions relating to the foregoing involve judgment with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties relating to our business described in this report under “Item 3.D: Risk Factors,” “Item 4: Information on Ellomay,” “Item 5: Operating and Financial Review and Prospects” and elsewhere in this report. In addition, new factors emerge from time to time, and it is not possible for management to predict all such factors, nor assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis as of the date hereof. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as required by applicable law. In addition to the disclosure contained herein, readers should carefully review any disclosure of risks and uncertainties contained in other documents that we file from time to time with the SEC.

To the extent that this report contains forward-looking statements (as distinct from historical information), we desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and we are therefore including this statement for the express purpose of availing ourselves of the protections of the safe harbor with respect to all forward-looking statements.

PART I

ITEM 1: Identity of Directors, Senior Management and Advisers

Not Applicable.

ITEM 2: Offer Statistics and Expected Timetable

Not Applicable.

ITEM 3: Key Information

A. Selected Financial Data

The following tables set forth our selected consolidated financial and other financial and operating data. Historical results are not indicative of the results to be expected in the future. Our financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board. The selected consolidated financial data set forth below should be read in conjunction with and is qualified by reference to our consolidated financial statements and the related notes, as well as “Item 5: Operating and Financial Review and Prospects.” The consolidated statements of profit or loss and other comprehensive income (loss) for each of the years in the three-year period ended December 31, 2018 and the consolidated statements of financial position as of December 31, 2018 and December 31, 2017 are derived from our audited consolidated financial statements appearing elsewhere in this report. The consolidated statements of profit or loss and other comprehensive income (loss) for each of the years in the two-year period ended December 31, 2014 and 2015 and the consolidated statements of financial position data as of December 31, 2014, 2015 and 2016 are derived from our audited consolidated financial statements that are not included in this report.

Effective December 31, 2017, we changed the presentation currency of our consolidated financial statements from the US dollar to the euro to better reflect the profile of our assets, revenues, costs and cash flows, which are primarily generated in euro, and hence, to better present our financial performance. All comparative financial information has been restated into euro in this report.

Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)
(in thousands except per share and share data)

	Year ended December 31,					
	2014	2015	2016	2017	2018	2018
	euro					Convenience Translation into US\$(1)
Revenues	11,910	12,446	11,632	13,636	18,117	20,745
Operating expenses	2,326	(2,571)	(2,082)	(2,549)	(6,342)	(7,262)
Depreciation expenses	(4,110)	(4,428)	(4,411)	(4,518)	(5,816)	(6,660)
Gross profit	5,474	5,447	5,139	6,569	5,959	6,823
Project development costs	*(744)	*(1,044)	*(2,201)	*(2,739)	(2,878)	(3,295)
General and administrative expenses	*(2,469)	*(2,328)	*(2,032)	*(2,420)	(3,600)	(4,122)
Share of profits of equity accounted investee	1,368	2,202	1,375	1,531	2,545	2,914
Other income, net	1,082	18	90	18	884	1,012
Gain on bargain purchase	3,006	-	-	-	-	-
Operating profit	7,717	4,295	2,371	2,959	2,910	3,332
Financing income	1,537	2,061	263	1,333	2,936	3,362
Financing income (expenses) in connection with derivatives, net	(789)	3,192	636	(3,156)	494	566
Financing expenses	(3,460)	(3,177)	(3,333)	(7,405)	(5,521)	(6,322)
Financing income (expenses), net	(2,712)	2,076	(2,434)	(9,228)	(2,091)	(2,394)
Profit (loss) before taxes on income	5,005	6,371	(63)	(6,269)	819	938
Tax benefit (taxes on income)	(119)	1,739	(569)	(372)	(215)	(246)
Profit (loss) for the year	4,886	8,110	(632)	(6,641)	604	692
Profit (Loss) attributable to:						
Owners of the Company	4,893	8,340	(209)	(6,115)	1,057	1,211
Non-controlling interests	(7)	(230)	(423)	(526)	(453)	(519)
Profit (loss) for the year	4,886	8,110	(632)	(6,641)	604	692
Other comprehensive income (loss) items that after initial recognition in comprehensive income (loss) were or will be transferred to profit or loss:						
Foreign currency translation differences for foreign operations	181	1,104	692	(359)	(787)	(901)
Effective portion of change in fair value of cash flow hedges	-	-	-	(1,244)	(1,008)	(1,154)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	1,382	643	736
Total other comprehensive income (loss)	181	1,104	692	(221)	(1,152)	(1,319)
Total comprehensive income (loss) for the year	5,067	9,214	60	(6,862)	(548)	(627)
Basic earnings (loss) per share	0.46	0.78	(0.02)	(0.57)	0.10	0.11
Diluted earnings (loss) per share	0.45	0.78	(0.02)	(0.57)	0.10	0.11
Weighted average number of shares used for computing basic earnings (loss) per share	10,692,371	10,715,634	10,667,700	10,675,757	10,675,508	10,675,508
Weighted average number of shares used for computing diluted earnings (loss) per share	10,808,288	10,758,370	10,667,700	10,675,757	10,678,857	10,678,857

* During the year ended December 31, 2017, we changed the income statement classification of expenses related to project development from general and administrative expenses to project development costs to reflect more appropriately their nature and the way in which economic benefits are expected to be derived from the use of such costs. Comparative amounts were reclassified for consistency.

Other financial data (in thousands)

	Year ended December 31,					
	2014	2015	2016	2017	2018	2018
	euro					Convenience Translation into US\$(1)
EBITDA*	11,827	6,708	6,782	7,477	8,726	9,992

* EBITDA is a non-IFRS measure and is defined as earnings before financial expenses, net, taxes, depreciation and amortization. We present this measure to enhance the understanding of our historical financial performance and to enable comparability between periods. While we consider EBITDA to be an important measure of comparative operating performance, EBITDA should not be considered in isolation or as a substitute for net income or other statement of operations or cash flow data prepared in accordance with IFRS as a measure of profitability or liquidity. EBITDA does not take into account our commitments, including capital expenditures and restricted cash and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. Not all companies calculate EBITDA in the same manner, and the measure as presented may not be comparable to similarly-titled measures presented by other companies. Our EBITDA may not be indicative of our historic operating results; nor is it meant to be predictive of potential future results.

Reconciliation of Profit (Loss) to EBITDA (in thousands)

	Year ended December 31,					
	2014	2015	2016	2017	2018	2018
	euro					Convenience Translation into US\$(1)
Profit (loss) for the year	4,886	8,110	(632)	(6,641)	604	692
Financing income (expenses), net	(2,712)	2,076	(2,434)	(9,228)	(2,091)	(2,394)
Taxes benefit (taxes on income)	(119)	1,739	(569)	(372)	(215)	(246)
Depreciation and amortization	(4,110)	(4,428)	(4,411)	(4,518)	(5,816)	(6,660)
EBITDA	11,827	6,708	6,782	7,477	8,726	9,992

Consolidated Statements of Financial Position Data (in thousands, except share data)

	At December 31,					
	2014	2015	2016	2017	2018	2018
	euro					Convenience Translation into US\$(1)
Working capital	15,554	21,515	22,402	31,286	39,013	44,678
Total assets	130,953	147,314	148,464	198,088	211,160	241,785
Total liabilities	53,474	60,872	64,093	120,588	134,203	153,666
Total equity	77,479	86,442	84,371	77,500	76,957	88,119
Capital stock	76,829 ⁽²⁾	76,660 ⁽³⁾	76,592 ⁽⁴⁾	76,583 ⁽⁵⁾	76,588 ⁽⁵⁾	87,696
Ordinary shares outstanding	10,692,371 ⁽²⁾	10,678,888 ⁽³⁾	10,677,370 ⁽⁴⁾	10,675,508 ⁽⁵⁾	10,675,508 ⁽⁵⁾	10,675,508 ⁽⁵⁾

(1) The euro figures at December 31, 2018, and for the period then ended have been translated throughout this report into U.S. dollars using the representative exchange rate of the dollar at December 31, 2018 (euro 1 = US\$ 1.145). The translation was made solely for convenience, is supplementary information, and is distinguished from the financial statements. The translated dollar figures should not be construed as a representation that the European currency amounts actually represent, or could be converted into, U.S. dollars.

- (2) Net of 85,655 treasury shares.
- (3) Net of 254,666 treasury shares.
- (4) Net of 256,184 treasury shares.
- (5) Net of 258,046 treasury shares.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Investing in our securities involves significant risk and uncertainty. You should carefully consider the risks and uncertainties described below as well as the other information contained in this report before making an investment decision with respect to our securities. If any of the following risks actually occurs, our business, financial condition, prospects, results of operations and cash flows could be harmed and could therefore have a negative effect on the trading price of our securities.

The risks described below are the material risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations in the future.

Risks Related to our Business

Risks Related to our Renewable Energy Operations

Our business depends to a large extent on the availability of financial incentives. The reduction or elimination of government subsidies and economic incentives could reduce our profitability and adversely impact our revenues and growth prospects. Many countries, such as Germany, Spain, Italy, the Netherlands, France, Portugal, Japan and Israel, offer substantial incentives to offset the cost of renewable energy production, including photovoltaic power systems and WtE technologies in the form of Feed-in-Tariff, or FiT, or other incentives to promote the use of clean energy (including solar energy and biogas) and to reduce dependence on other forms of energy. In addition, several countries encourage manufacturers and farmers to choose waste management methods that are more environmentally-friendly, either by establishing fines on non-environmentally friendly waste management methods or by payment of incentives. These government incentives could potentially be reduced or eliminated altogether. For instance, both the Italian and Spanish governments previously revised the government incentives as described under “Business” below and in our financial statements included elsewhere in this report. If the Italian, Spanish or Israeli governments elect to revise the existing incentive schemes, this may adversely affect the profitability of our photovoltaic plants, or the PV Plants, and of any new photovoltaic plant acquired or constructed by us. If the Dutch government revises the incentive scheme for existing or future WtE facilities to reduce the support or increase the liabilities of WtE facilities, it may adversely affect our profitability from future WtE projects in the Netherlands. Any retroactive or prospective changes in the incentive schemes in other countries may affect our business plan and any future projects we may be interested in developing or acquiring in such countries. In general, uncertainty about the introduction of, reduction in, or elimination of, incentives or delays or interruptions in the implementation of favorable laws could substantially affect our profitability and adversely affect our ability to continue and develop new renewable energy facilities.

Existing regulations, and changes to such regulations, may present technical, regulatory and economic barriers and restrictions to the construction and operation of renewable energy facilities, which may adversely affect our operations. The installation and operation of renewable energy facilities is subject to oversight and regulation in accordance with international, European (to the extent applicable), national and local ordinances, building codes, zoning (or permitting), environmental protection regulation, including waste disposal regulations, utility interconnection requirements, security requirements and other rules and regulations. Any changes in applicable regulations that increases the burdens or restrictions on the operation of our renewable energy facilities, such as a change in regulations governing waste disposal times and locations in countries in which our WtE facilities dispose the digestate resulting from their operations, could increase our costs of operation and, as a result, adversely affect our results of operations. In addition, various governmental, municipal and other regulatory entities require the issuance and continued effectiveness of relevant permits, licenses and authorizations for the construction and operation of renewable energy facilities. If such permits, licenses and authorizations are not issued on a timely basis, this could result in the interruption, cessation or abandonment of a newly constructed renewable energy facility, or may require making significant changes to such renewable energy facility, any of which may cause severe losses. In addition, if issued, these licenses and permits may be revoked by the authorities following their issuance in the event the authorities discover irregularities or deviations from the scope of the license or permit. Any revocation of existing licenses may obligate us to cease operating the relevant renewable energy facility for the period required in order to renew the relevant license or indefinitely and therefore will adversely affect our business and results of operations.

In recent years, we entered the development and entrepreneurship renewable energy market. These operations are exposed to regulatory and other development risks that may cause such projects not to enter into the construction phase and thereby cause the total or partial loss of the project development funds invested in the project. We are currently active in several projects in various development stages, mainly the project to promote the construction of a 300 MW photovoltaic plant in the municipality of Talaván, Cáceres, Spain, or the Talasol Project, and the prospective 156 MW pumped storage project in the Manara Cliff in Israel, or the Manara PSP. Projects in the development stages are exposed to various risks, including the inability to secure the project's income through a hedging agreement or a PPA supported by a government or a corporation with sufficient financial capabilities, the inability to obtain or maintain regulatory permits and approvals, the inability to obtain project finance, upon terms economically beneficial or at all, potential disagreements and conflicts with partners, dependency on technical consultants and surveys and risks associated with operations in foreign countries. If any of these risks materialize, the entire project may be delayed or cancelled altogether, causing the loss of all part of the funds invested in the project development efforts. Even if we succeed in selling our rights in a project to third parties, the return of our project development expenses will likely be conditioned upon the continued development of the project by such third parties.

Success of our renewable energy facilities, from their construction through their commissioning and ongoing commercial operation, depend to a large extent on the cooperation, reliability, solvency, and proper performance of the contractors we engage for the construction, operation and maintenance of our renewable energy facilities, or the Contractors, and of the other third parties involved, including subcontractors, local advisors, financing entities, land owners, suppliers of parts and equipment, the energy grid regulator, governmental agencies and other potential purchasers of electricity. The construction and operation of a renewable energy facility requires timely input, often of a highly specialized technical nature, from several parties, including the suppliers of the various system components (such as solar panels or CHP engine) and plant operators, other suppliers of relevant parts and materials (including replacement parts), feedstock suppliers, land owners, subcontractors, electricity brokers, financing entities and governmental and related agencies (as subsidizers and as regulators). In addition, as we use Contractors to construct and thereafter operate and maintain our renewable energy facilities, we depend on the Contractors' expertise and experience, representations, warranties and undertakings regarding, *inter alia*: the construction quality, schedule of construction, operation, maintenance and performance of each of the facilities, the use of high-quality materials, strict compliance with applicable legal requirements and the Contractors' financial stability. If the Contractors' representations or warranties are inaccurate or untrue, or if any of the Contractors or other entities fail to perform their obligations properly, this could result in the interruption, cessation or abandonment of the relevant facility, or may require significant expenses to mitigate the damages or repair them, any of which may cause us severe losses.

The performance of our renewable energy facilities depends on the quality of the equipment installed in such facilities and on the reliability of the suppliers of spare and replacement parts. Our renewable energy facilities' performance depends on the quality of the components of the facility and the equipment installed in the facilities. Any defects or deterioration in the quality of such components and equipment could harm our results of operations and if we will not be able to quickly locate quality replacement parts or perform repairs, our results of operations could be adversely affected for a long period of time. For example, the performance of our PV Plants depends on the quality of the solar panels installed. Degradation in the performance of the solar panels above a certain level is guaranteed by the panel suppliers and we generally receive undertakings from the Contractors with respect to minimum performances. Therefore, one of the critical factors in the success of our PV Plants is the existence of reliable solar panel suppliers, who guarantee the performance and quality of the solar panels supplied and their ability to provide us with replacement and spare parts that are of sufficient quality. If the suppliers of solar panels will not meet their undertakings under the guarantees and no replacement panels will be available at a reasonable price, this could result in the interruption, cessation or abandonment of the relevant PV Plant, or may require significant expenses to mitigate the damages or repair them, any of which may cause us severe losses.

In the event we are unable to comply with the obligations and undertakings, including with respect to financial covenants, which we undertook in connection with the project financing of several of our renewable energy facilities, our results of operations may be adversely affected. In connection with the financing of several of our PV Plants and with our WtE projects, or the WtE Projects, we have long-term agreements with various financing entities and may in the future enter into additional project finance agreements in connection with our other PV Plants, for example, the project financing recently executed in connection with the Talasol Project. The agreements that govern the provision of financing include and future project finance agreements are expected to include, *inter alia*, undertakings and financial covenants, the majority of which are based on the ongoing income derived from the relevant PV Plant, which may be adversely affected by the various risks detailed herein. If we fail to comply with any of these undertakings and covenants, we may be subject to penalties, future financing requirements, and the acceleration of the repayment of debt. These occurrences would have an adverse effect on our financial position and results of operations and on our ability to obtain outside financing for other projects.

As a substantial part of our business is currently located in Europe, we are subject to additional risks that may negatively impact our operations. We currently have substantial operations in Italy and in Spain and certain WtE operations in the Netherlands, all of which are held by our Luxembourg subsidiary, and may make additional investments in projects located in Europe, such as the expected construction of the Talasol Project. Due to these existing operations and any additional future investments, we are subject to special considerations or risks associated with companies operating in other jurisdictions, including rules and regulations, cross currency movements, different payment cycles, tax issues, such as tax law changes and variations in tax laws as compared to Israel, cultural and language differences, crime, strikes, riots, civil disturbances, terrorist attacks and wars and deterioration of political and economic relations with Israel. Our European operations subject us to a number of these risks, as well as the requirement to comply with Italian, Spanish, Dutch and European Union laws.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum (Brexit). The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could continue for a few years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, and given rise for the governments of other EU member states to consider withdrawal. Our regulatory risk could increase if there were to be future divergence with the EU regime.

These developments, or the perception that any of them could occur, could have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and future growth. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility.

We cannot assure you that we would be able to adequately address some or all of these additional risks. If we were unable to do so, our operations might suffer.

A drop in the price of energy may negatively impact our results of operations. The revenue from the sale of energy produced by renewable energy facilities includes the incentives in the form of governmental subsidies and in addition proceeds from the sale of electricity and gas produced in the electricity and gas market at market price. A decrease in the price of electricity and gas, particularly in the countries in which we operate and in which some of our revenues are based on the market price of electricity and gas, may negatively impact our profitability and our ability or interest to expand our renewable energy operations.

An increase in the prices of components of the renewable energy facility may adversely affect our development projects, future growth and business. Renewable energy facilities installations have substantially increased over the past few years. The increased demand led to fluctuations in the prices of the components resulting from oversupply and undersupply. For example, the increased demand for solar panels resulted in substantial investments in solar panels production facilities, creating oversupply and a sharp continuing decrease in the prices of solar panels. A future reversal in the trend and an increase in the prices of solar panels and other components of the system (such as invertors and related electric components) or an increase in the prices of components of other renewable energy facilities, may increase the costs of replacing components in our existing facilities or the costs of constructing new facilities and impact the profitability of constructing facilities and our ability to expand our business. Additionally, if there is a shortage of key components necessary for the production of the components, that may constrain our revenue growth.

As electric power accounts for a growing share of overall energy use, the market for renewable energy is intensely competitive and rapidly evolving. The market for renewable energy attracts many initiatives and therefore is intensely competitive. Our competitors who strive to construct new renewable energy facilities and acquire existing facilities may have established more prominent market positions, have greater resources and may have more experience in this field. Extensive competition may adversely affect our ability to continue to acquire and develop new facilities.

Risks Related to our PV Plants

The revenues derived from our PV Plants mainly depend on payments received from governmental entities. Any future deterioration in the financial position of the local governments or regulated entities, resulting in partial or no payment or in regulatory changes may adversely affect the results of our operations. The revenues derived by our PV Plants are based mainly on payments received from governmental or regulated entities. In Italy, the main portion of our PV related revenues is based on the FIT, in Spain our revenues are primarily based on payments from governmental entities in accordance with a specific remuneration incentive scheme and in Israel all of our income is based on a fixed tariff from the Israel Electric Company, or the IEC, a governmental company that controls the Israeli electricity market. Although the economies of both Italy and Spain improved since the global financial crisis in 2007, both countries remain in a state of financial crisis and commenced during 2013 and 2014 several legislation processes that revise or affect the remuneration scheme for photovoltaic plants (as described under "Business" below and our financial statements included elsewhere in this report), and may do so again in the future. We cannot assure you that the continued economic crisis will not cause additional changes to the Italian or Spanish governments' photovoltaic energy incentive schemes. The IEC has also experienced financial crises over the years and is in the process of implementing a reform in its operations, however we cannot predict how and when this reform will be implemented and what its outcome will be. Any changes in the financial stability of the governmental entities paying all or a portion of our PV revenues and any resulting change in the regulation may directly or indirectly affect the payments we receive and, therefore, our operations and revenues.

We are exposed to the possibility of damages to, or theft of, the various components of our PV Plants. Such occurrences may cause disruptions in the production of electricity and additional costs. Some of our PV Plants suffered damages and disruption in the production of electricity as a result of theft of panels and other components, or due to bad weather and land conditions. Although such damages and theft are generally covered by the PV Plants' insurance policies, in certain circumstances such occurrences, may not be covered in part by the insurance and may cause an increase in the premiums paid to our insurance companies, all of which may adversely affect our results of operations and profitability.

Our ability to produce solar power is dependent upon the magnitude and duration of sunlight as well as other meteorological and geographic factors. Solar power production has a seasonal cycle, and adverse meteorological conditions can materially impact the output of photovoltaic plants and result in production of electricity below expected output, which in turn could adversely affect our profitability. For example, 2016 was characterized with relatively low levels of radiation, which resulted in a decrease in our PV-related revenues for that year. In addition, floods, storms, seismic turbulence and earth movements may damage our PV Plants and the insurance coverage we have for such risks may not cover the damage in full because these circumstances are sometimes deemed "acts of god." Future expenses due to the need to replace damaged components or the lower electricity output due to changes in meteorological conditions and other geographic factors may adversely affect our profitability.

We have taken over operations of our WtE projects in recent months and although we gained some expertise in the WtE field since our entry into the field in 2017, we are still gaining experience in the WtE field. We entered into the WtE field and the Netherlands renewable energy market in 2017. Since then, we gained some experience in the field and in the Netherlands renewable energy market, mainly since we recently took over the operations of the two WtE projects that commenced operations in November 2017 and June 2018. In March 2019, we entered into an agreement with Ludan Engineering Company Ltd. (TASE: LUDN), or Ludan, which, among other things, provides for the immediate and unconditional termination of the operations and maintenance services of these affiliates to the WtE Projects effective as of January 27, 2019. Therefore, we are currently operating the WtE Projects. Since the commencement of their operations, the WtE Projects have suffered an operating loss. Despite our accumulated expertise in the field, continued operating losses in the operation of our WtE Projects resulting from our lack of sufficient expertise or due to other factors over which we may not have control will adversely affect our results of operations.

In addition to the risks involved in the construction and operation of, and the regulatory risks applicable to, renewable energy facilities in general, WtE projects are exposed to risks specific to this industry. In addition to the risks detailed above under “Risks Related to our Renewable Energy Operations,” WtE projects are exposed to additional risks specific to this industry, including:

- As the raw materials used to produce energy in the WtE market are not freely available (as is the case with wind, solar and hydro energies), the success of a WtE facility depends on its ability to procure and maintain sufficient levels of the waste applicable and suitable to the WtE technology the facility uses, in order to meet a certain range of energy (gas, electricity or heat) production levels. The WtE facility is required to enter into long-term supply agreements with waste suppliers, such as farmers, food manufacturers and other specialized waste suppliers. Any increase in the price of waste or shortage in the type or quality of waste required to produce the desired energy levels with the technology used by the facility could slow down or halt operations, causing a material adverse effect on the results of operations. The quality and availability of a range of a certain feedstock mix might also increase the facility’s operating costs, either due to the need to purchase more expensive feedstock mix in order to meet the desired energy production levels, or due to increase in the amounts of residues and the resulting increase of removal of surplus quantities. In addition to the impact of the quality of the feedstock on the production levels, maintaining and monitoring the feedstock quality is crucial, for preventing malfunctions in the process, for example due to high levels of certain chemicals that might harm the CHP engines. The quality and reliability of the gas upgrading component, which convert the biogas to grid quality gas (methane), in facilities that produce gas to grid, is important for determining the gas upgrading ratio, which ultimately regulate the gas production levels and therefor the revenue streams from the sales of gas, receiving subsidy for gas, and eventually the facility’s profitability. Therefore, any shortage of quality feedstock, changes in the feedstock mix available for use, and shortage in the gas upgrading component could have a material adverse effect on the results of operations of the WtE facilities.

The WtE industry is subject to many laws and regulations which govern the protection of the environment, quality control standards, health and safety requirements, and the management, transportation and disposal of different types of waste. Environmental laws and regulations may require removal or remediation of pollutants and may impose civil and criminal penalties for violations. The costs arising from compliance with environmental laws and regulations may increase operating costs for our WtE facilities and we may be exposed to penalties for failure to comply with such laws and regulations. In addition, existing regulation governing waste management and waste disposal provide incentives to feedstock suppliers to use waste management solutions such as the provision of feedstock to WtE facilities. Any regulatory changes that impose additional environmental restrictions on the WtE industry or that relieve feedstock suppliers from the stringent regulation concerning waste management and disposal could increase our operating costs, limit or change the cost of the feedstock available to us, and adversely affect our results of operations.

Risks Related to our Israeli Operations

The electricity sector in Israel is highly regulated. Failure to obtain and maintain conditional or permanent electricity production and supply licenses from the regulator could materially adversely affect our operations and results of operations. The Israeli electricity sector is subject to various laws and regulations, such as in connection with the tariffs charged by the IEC, including the resolution from May 2013 to charge private manufacturers, such as Dorad Energy Ltd., or Dorad, in which we indirectly hold 9.375%, for the IEC's system operation services, and the licensing requirement. The prices paid by Dorad to the IEC for system operation services provided to Dorad and the fees received by Dorad and by our PV Plant located in Talmei Yosef, Israel, or the Talmei Yosef PV Plant, from the IEC for electricity sold to the IEC and for providing the IEC with energy availability, are all based on tariffs determined by the Israeli regulator. The updates and changes to the regulation and tariffs required to be paid to the IEC by Dorad may not necessarily involve negotiations or consultations with Dorad and may be unilaterally imposed on it. Any changes in the tariffs, system charges or applicable regulations may adversely affect our operations and results of operations.

The electricity sector in Israel is highly centralized. The IEC controls and operates the electricity system and all stages of the transmission of electricity. The electricity sector in Israel is dominated by the IEC, which controls and operates the electricity system in Israel, including the delivery and transmission of electricity, and also manufactures the substantial majority of electricity in Israel. The IEC is also the only customer of the Talmei Yosef PV Plant and is subject to the requirement to pay a fixed tariff for the electricity manufactured by such project. Similarly, should the Manara PSP be constructed and become operational, it is currently expected that its sole customer will be the IEC, who will be required to pay the Manara PSP for availability and electricity. The IEC experienced financial difficulties in recent years and the ability of the IEC to pay the renewable energy manufacturers could be affected by the financial instability of the IEC.

The employees of the IEC, who object to certain reforms in the Israeli electricity sector, have in the past applied sanctions to prevent the connection, and at a later stage threatened to disconnect, the combined cycle power (bi-fuel) plant running mainly on natural gas, with a production capacity of approximately 850 MW owned by Dorad, or the Dorad Power Plant, from the Israeli national grid as part of their efforts to prevent implementation of these reforms and may in the future do so again.

The inability of the IEC to pay Dorad or Talmei Yosef or unilateral actions on the part of IEC's employees may adversely affect our plan of operations and could have a material adverse effect on our profitability.

The Talmei Yosef PV Plant and the Dorad Power Plant are located in the southern part of Israel, in proximity to the Gaza Strip and within range of missile and mortar bombs launched from the Gaza Strip. The Manara PSP is expected to be located the northern party of Israel, in proximity to the border with Lebanon. The Talmei Yosef Project is located near the Gaza Strip border and the Dorad Power Plant is located in Ashkelon, a town in the southern party of Israel, in proximity to the Gaza Strip. In recent years, there has been an escalation in violence and missile attacks from the Gaza Strip to Southern and Central Israel. The Manara PSP is expected to be constructed in close proximity to Israel's border with Lebanon. Certain measures were taken to protect the Dorad Power Plant from missile attacks. However, any such further attacks to the area surrounding the Gaza Strip or to the area in close proximity to the northern border of Israel or any direct damage to the location of these projects may damage the relevant facilities and disrupt the operations of the projects and thereafter their operations, and may cause losses and delays.

Risks Related to our Investment in Dori Energy

We have joint control in U. Dori Energy Infrastructures Ltd., or Dori Energy, who, in turn, holds a minority stake in Dorad. Therefore, we do not control the operations and actions of Dorad. We currently hold 50% of the equity of Dori Energy who, in turn, holds 18.75% of Dorad and accordingly our indirect interest in Dorad is 9.375%. Although we entered into a shareholders' agreement with Dori Energy and the other shareholder of Dori Energy, Amos Luzon Entrepreneurship and Energy Group Ltd. (f/k/a U. Dori Group Ltd.), or the Dori SHA and the Luzon Group, respectively, providing us with joint control of Dori Energy, should differences of opinion as to the management, prospects and operations of Dori Energy arise, such differences may limit our ability to direct the operations of Dori Energy. Moreover, Dori Energy holds a minority stake in Dorad and as of the date hereof is entitled to nominate only one director in Dorad, which, according to the Dori SHA, we are entitled to nominate. As we have one representative on the Dorad board of directors, which has a total of nine directors, we do not control Dorad's operations. Therefore, as we have joint control over Dori Energy and limited control over Dorad, we may be unable to prevent certain developments that may adversely affect their business and results of operations. Since July 2015, several of Dorad's direct and indirect shareholders, including Ellomay Clean Energy Ltd., or Ellomay Energy, our wholly-owned subsidiary that holds Dori Energy's shares, are involved in various legal proceedings, all as more fully described below. In addition, to the extent our interest in Dori Energy is deemed an investment security, as defined in the Investment Company Act of 1940, or the Investment Company Act, we could be deemed to be an investment company under the Investment Company Act, depending on the value of our other assets. Please see "We may be deemed to be an "investment company" under the Investment Company Act of 1940, which could subject us to material adverse consequences" below.

The Dori Energy Shareholders Agreement contains restrictions on our right to transfer our holdings in Dori Energy, which may make it difficult for us to terminate our involvement with Dori Energy. The Luzon Group registered a pledge on its rights and shares of Dori Energy for the benefit of its debenture holders. The Dori SHA contains several restrictions on our ability to transfer our holdings in Dori Energy, including a right of first refusal. The aforesaid restrictions may make it difficult for us to terminate our involvement with Dori Energy should we elect to do so and may adversely affect the return on our investment in Dori Energy. In addition, the controlling shareholder of the Luzon Group, which is an Israeli public company, changed several times in recent years and the Luzon Group's holdings in Dori Energy are pledged to secure the Luzon Group's obligations to holders of one of the series of debentures issued by the Luzon Group. Any further changes in control of the Luzon Group or a default by the Luzon Group on payments to its debenture holders may adversely affect our relationship with the other shareholder in the Dori Group and, as a result, may adversely affect our investment in Dori Energy.

Dorad, which is currently the only substantial asset held by Dori Energy, operates the Dorad Power Plant, whose successful operations and profitability is dependent on a variety of factors, many of which are not within Dorad's control. Dorad's only substantial asset is the Dorad Power Plant, situated on the premises of the Eilat-Ashkelon Pipeline Company, or EAPC, located south of Ashkelon, Israel. The Dorad Power Plant is subject to various complex agreements with third parties (the Israeli Electric Company, or IEC, the operations and maintenance contractor, suppliers, private customers, etc.) and to regulatory restrictions and guidelines in connection with, among other issues, the tariffs to be paid by the IEC to Dorad for the energy produced. Various factors and events may materially adversely affect Dorad's results of operations and profitability and, in turn, have a material adverse effect on Dori Energy's and our results of operations and profitability. These factors and events include:

- The operation of the Dorad Power Plant is highly complex and dependent upon the continued ability: (i) to operate the various turbines, and (ii) to turn the turbines on and shut them down quickly based on demand. The profitability of Dorad also depends on the accuracy of the proprietary forecasting system used by Dorad. Any defects or disruptions, or inaccuracies in forecasts, may result in an inability to provide the amount of electricity required by Dorad's customers or in over-production, both of which could have a material adverse effect on Dorad's operations and profitability.
- Dorad's operations are dependent upon the expertise and success of its operations and maintenance contractor, who is responsible for the day-to-day operations of the Dorad Power Plant. If the services provided by such contractor will cause delays in the production of energy or any other damage to the Dorad Power Plant or to Dorad's customers, Dorad may be subject to claims for damages and to additional expenses and losses and therefore Dorad's profitability could be adversely affected.
- Significant equipment failures may limit Dorad's production of energy. Although such damages are generally covered by insurance policies, any such failures may cause disruption in the production, may not all be covered by the insurance and the correction of such failures may involve a considerable amount of resources and investment and could therefore adversely affect Dorad's profitability.
- The construction of the Dorad Power Plant was mainly financed by a consortium of financing entities pursuant to a long-term credit facility and such credit facility provides for pre-approval by the consortium of certain of Dorad's actions and contracts with third parties. Changes in the credit ratings of Dorad and its shareholders, non-compliance with financing and other covenants, delays in provision of required pre-approvals or disagreements with the financial entities and additional factors may adversely affect Dorad's operations and profitability.

- Dorad entered into a long-term natural gas supply agreement with the partners in the “Tamar” license, or Tamar, located in the Mediterranean Sea off the coast of Israel. This agreement includes a “take or pay” mechanism, subject to certain restrictions and conditions that may result in Dorad paying for natural gas not actually required for its operations. In the event Dorad will be required to pay for natural gas that it does not need and cannot store for future use, Dorad’s results of operations and profitability could be adversely affected. Tamar is currently Dorad’s sole supplier of natural gas and has undertaken to supply natural gas to various customers and is permitted to export a certain amount of the natural gas to customers outside of Israel. Dorad’s operations will depend on the timely, continuous and uninterrupted supply of natural gas from Tamar and on the existence of sufficient reserves throughout the term of the agreement with Tamar. In addition, the price of the natural gas under the supply agreement with Tamar is linked to production tariffs determined by the Israeli Electricity Authority but cannot be lower than the “final floor price” included in the agreement. Due to the reduction in fuel and energy prices and the resulting reduction in the production tariff during 2015, the price for natural gas under the agreement with Tamar reached the final floor price in March 2016 but was increased effective January 1, 2019 due to an increase in the production component rate. In the event the natural gas price reaches the final floor price again in the future, it will not be further reduced in the event of future reductions in the fuel and energy prices and the production tariff. Any delays, disruptions, increases in the price of natural gas under the agreement, or shortages in the gas supply from Tamar will adversely affect Dorad’s results of operations. In addition, as future reductions in the production tariff will not affect the price of natural gas under the agreement with Tamar, Dorad’s profitability may be adversely affected.
- The Dorad power plant is subject to environmental regulations, aimed at increasing the protection of the environment and reducing environmental hazards, including by way of imposing restrictions regarding noise, harmful emissions to the environment and handling of hazardous materials. Currently the costs of compliance with the foregoing requirements are not material. Any breach or other noncompliance with the applicable laws may cause Dorad to incur additional costs due to penalties and fines and expenses incurred in order to regain compliance with the applicable laws, all of which may have an adverse effect on Dorad’s profitability and results of operations.
- As a result of the agreements with contractors of the Dorad Power Plant and the indexation included in the gas supply agreement, Dorad is exposed to changes in exchange rates of the U.S. dollar against the NIS. To minimize this exposure Dorad executed forward transactions to purchase U.S. dollars against the NIS. In addition, due to the indexing to the Israeli consumer price index under Dorad’s credit facility, it is exposed to fluctuations in the Israeli CPI, which may adversely affect its results of operations and profitability. As the hedging performed by Dorad does not completely eliminate such exposures, Dorad’s profitability might be adversely affected due to future changes in exchange rates or in the Israeli consumer price index.

As the energy sector in Israel is subject to regulation and oversight, the implementation, completion and commercial operation of the Manara PSP depend, *inter alia*, on securing a quota, which will be allocated only following successful and timely completion of a financial closing in accordance with the terms of the conditional license issued in connection with the Manara PSP. The current overall quota for pumped storage projects in Israel, or the PS Quota, as determined by the Israeli Government and implemented by the Israeli Electricity Authority, is 800 MW. Out of the PS Quota, a portion of 156 MW is still available as 300 MW have been allocated to a pumped storage project in the Gilboa region, Israel, or the Gilboa PSP, which achieved financial closing and is currently in its final construction stages and 344 MW have been allocated to a pumped storage project in Kochav Hayarden, Israel, or the Kochav Hayarden PSP, which also reached financial closing, and entered the construction phase. On December 4, 2017, the Israeli Electricity Authority announced the reduction of the capacity stipulated in the conditional license, or the Conditional License, granted to Ellomay Pumped Storage (2014) Ltd., or Ellomay PS, from 340 MW to 156 MW, based on the remaining available portion of the PS Quota.

According to the Israeli Electricity Authority resolutions, following the utilization of the PS Quota (which will take place upon financial closing in connection with the remaining 156 MW), the Israeli Electricity Authority is expected to initiate a process of revoking the conditional licenses of the pumped storage projects which have not achieved financial closing, and which exceed the PS Quota.

Thus, in the event that any other entities that have been granted a conditional license for the construction of a pumped storage facility in Israel timely comply with the requirements of their conditional license, and achieve financial closing before the Manara PSP reaches financial closing, in accordance with the terms of the Conditional License, the Conditional License may be revoked by the Israeli Electricity Authority. To our knowledge, there is currently one company, other than Ellomay PS, that has been granted a conditional license for the construction of a 156 MW pumped storage project in Neshet, Israel (Neshet Pumped Storage Ltd., or Neshet PS).

Although to our knowledge there have been discussions, *inter alia*, within the Israeli Electricity Authority, the Ministry of Energy, and the IEC, concerning the increase of the PS Quota to over 1,000 MW, there can be no certainty as to whether and when the PS Quota will be increased.

In addition to failure to secure a quota, the Conditional License may be revoked for other reasons, such as non-compliance with milestones stipulated in the Conditional License. The Conditional License includes several milestones, and deadlines for completing such milestones, including the financial closing, and the completion of the construction works of the pumped storage power plant. The Israeli Electricity Authority could revoke the Conditional License if Ellomay PS does not timely meet milestones under the Conditional License. Any such attempted revocation is subject to a written notice from the Israeli Electricity Authority, which shall include the reasons for the proposed revocation, and to a hearing of Ellomay PS before the Israeli Electricity Authority. If the Conditional License is revoked, the revocation could prevent the completion of the Manara PSP, resulting in a loss of some or all the funds invested in the Manara PSP.

Our ability to leverage our operations and increase our operations depends, *inter alia*, on our ability to obtain attractive project and corporate financing from financial entities. Our ability to obtain attractive financing and the terms of such financing, including interest rates, equity to debt ratio requirement and timing of debt availability will significantly impact our ability to leverage our investments and increase our operations. Although we have financing agreements with respect to several of our PV Plants and raised significant funds in Israel by the issuance of our Series A Debentures and Series B Debentures, or, together with the Series A Debentures, the Debentures, there is no assurance that we will be able to procure additional project financing for our remaining PV Plants, for the Talasol Project and the Manara PSP, both of which are expected to require significant funding, or any operations we will acquire in the future, or to obtain additional corporate financing, on terms favorable to us or at all. Our inability to obtain additional financing on favorable terms, or at all, may adversely affect our ability to leverage our investments and to procure the equity required in order to increase and further develop our operations.

Our ability to freely operate our business is limited as a result of certain restrictive covenants contained in the deeds of trust of our Series A and Series B Debentures. The deed of trust governing the Series A Debentures and the deed of trust governing the Series B Debentures, or the Deeds of Trust, contain a number of restrictive covenants that limit our operating and financial flexibility. These covenants include, among other things, a “negative pledge” with respect to a floating pledge on all of our assets and an obligation to pay additional interest in the event of certain rating downgrades. The Deeds of Trust also contain covenants regarding maintaining certain levels of financial ratios and criteria, including as a condition to the distribution of dividends, and other customary immediate repayment conditions, including, under certain circumstances, in the event of a change of control, a default under the deed of trust of the other debentures issued by us, a change in our operations or a disposition of a substantial amount of assets. Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. Such obligations may hinder our ability to finance our future operations or the manner in which we operate our business. In particular, any non-compliance with performance-related covenants and other undertakings of the Debentures could result in demand for immediate repayment of the outstanding amount under the Debentures and restrict our ability to obtain additional funds, which could have a material adverse effect on our business, financial condition or results of operations.

Our debt increases our exposure to market risks, may limit our ability to incur additional debt that may be necessary to fund our operations and could adversely affect our financial stability. As of December 31, 2018, our total indebtedness in connection with corporate and project financing was approximately €133 million, including principal and interest expected repayments, financing related swap transactions and excluding any related capitalized costs. The Deeds of Trust permit us to incur additional indebtedness, subject to maintaining certain financial ratios and covenants. Our debt, including the Debentures, and any additional debt we may incur, could adversely affect our financial condition by, among other things:

- increasing our vulnerability to adverse economic, industry or business conditions and cross currency movements and limiting our flexibility in planning for, or reacting to, changes in our industry and the economy in general;
- requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, thus reducing the funds available for operations and future business development; and

· limiting our ability to obtain additional financing to operate, develop and expand our business.

Despite our current indebtedness level, we may still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness. We may be able to incur substantial additional indebtedness, including additional issuances of debentures and secured indebtedness, in the future. Although the Deeds of Trust governing our Debentures contain conditions that may affect our ability to incur additional debt, mainly through the expansion of the series of the Debentures, these conditions are limited and we will be able to incur additional debt and enter into highly leveraged transactions, so long as we do not breach the financial covenants and meet these conditions. If new debt is added to our existing debt levels, the related risks that we face would intensify and we may not be able to meet all our debt obligations, including the repayment of the Debentures.

We cannot assure you that our business will generate sufficient cash flow from operations or future borrowings from other sources in an amount sufficient to enable us to service our indebtedness, including the Debentures, or to fund our other liquidity needs. To service our indebtedness, we will require a significant amount of cash. Our ability to make payments on and to refinance our indebtedness, including the Debentures, to fund planned capital expenditures and to maintain sufficient working capital will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. As such, we may not be able to generate sufficient cash to service the Debentures or our other indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, such as reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance all or a portion of our indebtedness, including the Debentures, on or before the maturity thereof, which may not be successful and could have a material adverse effect on our operations. We cannot assure you that we will be able to refinance any of our indebtedness, including the Debentures, on commercially reasonable terms or at all, or that the terms of that indebtedness will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition, the value of our outstanding debt, including the Debentures, and our ability to make any required cash payments under our indebtedness, including the Debentures. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at that time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

Our business results may be affected by currency and interest rate fluctuations and the hedging transactions we enter into in order to manage currency and interest rate related risks. We hold cash and cash equivalents, restricted cash and marketable securities mainly in euro and NIS. Our holdings in the Italian and Spanish PV Plants and in the Netherlands WtE project are denominated in euro and our holdings in the Talmei Yosef PV Plant and in Dori Energy are denominated in NIS. Our Debentures and the project finance obtained in connection with the Talmei Yosef Project are denominated in NIS and the interest and principal payments are to be made in NIS. The financing for several of our PV Plants bears interest based on EURIBOR rate. Therefore our repayment obligations and undertakings may be affected by adverse movements in the exchange and interest rates. Although we attempt to manage these risks by entering into various swap interest and currency transactions as more fully explained in “Quantitative and Qualitative Disclosures About Market Risk” below, we cannot ensure we will manage to eliminate these risks in their entirety. These swap transactions may also impact the results of our operations due to fluctuations in their value based on changes in the relevant exchange or interest rate.

If we do not conduct an adequate due diligence investigation of a target project or if certain events beyond our control occur, we may be required to subsequently take write-downs or write-offs, restructuring, and impairment or other charges that could have a significant negative effect on our financial condition, results of operations and our stock price. We must conduct a due diligence investigation of target projects that we intend to acquire or purchase an interest in. Intensive due diligence is time consuming and expensive due to the technical, accounting, finance and legal professionals who must be involved in the due diligence process. Even if we conduct extensive due diligence on a target business, we cannot assure you that this due diligence will reveal all material issues that may affect a particular target project, or that factors outside the control of the target project and outside of our control will not later arise. If our due diligence review fails to identify issues specific to a target project, industry or the environment in which the target project operates, or if certain events or circumstances occur that are beyond our control, we may be forced to later write-down or write-off assets, restructure our operations, or incur impairment or other charges that could result in losses. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our ordinary shares.

We may be deemed to be an “investment company” under the Investment Company Act of 1940, which could subject us to material adverse consequences. We could be deemed to be an “investment company” under the Investment Company Act if we invest more than 40% of our assets in “investment securities,” as defined in the Investment Company Act. Investments in securities of majority owned subsidiaries (defined for these purposes as companies in which we control 50% or more of the voting securities) are not “investment securities” for purposes of this definition. As our interest in Dori Energy is not considered an investment in majority owned securities, unless we maintain the required portion of our assets under our control, limit the nature of the requisite portion of our investments of our cash assets to cash and cash equivalents (which are generally not “investment securities”), succeed in making additional strategic “controlling” investments and continue to monitor our investment in Dori Energy, we may be deemed to be an “investment company.” We do not believe that our holdings in the PV Plants would be considered “investment securities,” as we control the PV Plants via wholly-owned subsidiaries, or that our holdings in the Manara PSP or the Talasol Project would be considered “investment securities,” as we control the project company. In addition, despite minority holder protective rights granted to Ludan under the Ludan Agreement, including several rights which effectively require the unanimous consent of all shareholders on several issues central to the business’ operation, we believe that our interests in these Approved Projects do not constitute “investment securities” given, among other things, the fact that we currently operate the WtE Projects and given our majority shareholder and board membership status in the WtE Projects. We also recently entered into an agreement with Ludan and its affiliates which, among other things, contemplates our acquisition of Ludan’s minority interest in the WtE Projects subject to certain conditions. We do not believe that the current fair value of our holdings in Dori Energy (all as more fully set forth under “Business” below) and other relevant assets, all of which may be deemed to be “investment securities,” would result in our being deemed to be an “investment company.” If we were deemed to be an “investment company,” we would not be permitted to register under the Investment Company Act without an order from the SEC permitting us to register because we are incorporated outside of the United States and, prior to being permitted to register, we would not be permitted to publicly offer or promote our securities in the United States. Even if we were permitted to register, it would subject us to additional commitments and regulatory compliance. Investments in cash and cash equivalents might not be as favorable to us as other investments we might make if we were not potentially subject to regulation under the Investment Company Act. We seek to conduct our operations, including by way of investing our cash and cash equivalents, to the extent possible, so as not to become subject to regulation under the Investment Company Act. In addition, because we are actively engaged in exploring and considering strategic investments and business opportunities, and in fact the majority of our investments to date (mainly in the Italian, Spanish and Israeli photovoltaic power plants markets) were made through a controlling investment, we do not believe that we are currently engaged in “investment company” activities or business. These strategies may force us to pursue less than optimal business strategies or forego business arrangements and to forego certain cash management strategies that could have been financially advantageous to us and to our financial situation and business prospect.

Our ability to successfully effect acquisitions and to be successful thereafter will be significantly dependent upon the efforts of our key personnel. Several of our key personnel allocate their time to other businesses. Our ability to successfully effect acquisitions is dependent upon the efforts of our key personnel, including Shlomo Nehama, our chairman of the board, Ran Fridrich, a director and our Chief Executive Officer, and Hemi Raphael, a member of our board. We entered into a management services agreement, or the Management Services Agreement, with entities affiliated with these board members and they have allocated a significant portion of their time to our company since the execution of the Management Services Agreement. However, they are not required to commit their full time to our affairs, which could create a conflict of interest when allocating their time between our operations and their other commitments. If their other business affairs require them to devote more substantial amounts of time to such affairs, it could limit their ability to devote time to our affairs and could have a negative impact on our ability to consummate acquisitions.

We may be characterized as a passive foreign investment company. Our U.S. shareholders may suffer adverse tax consequences. Under the passive foreign investment company or “PFIC” rules, for any taxable year that our passive income or our assets that produce passive income exceed specified levels, we will be characterized as a PFIC for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences for our U.S. shareholders, which may include having certain distributions on our ordinary shares and gains realized on the sale of our ordinary shares treated as ordinary income, rather than as capital gains income, and having potentially punitive interest charges apply to the proceeds of sales of our ordinary shares and certain distributions.

Certain elections may be made to reduce or eliminate the adverse impact of the PFIC rules for our U.S. shareholders, but these elections may be detrimental to such U.S. shareholders under certain circumstances. The PFIC rules are extremely complex and U.S. investors are urged to consult independent tax advisers regarding the potential consequences to them of our classification as a PFIC.

Based on our income and/or assets, we believe that we were a PFIC with respect to any U.S. shareholder that held our shares in 2008 through 2012. We also believe, based on our income and assets, that it is likely that we were not a PFIC with respect to U.S. shareholders that initially acquired our ordinary shares in 2013-2018. However, the Internal Revenue Service may disagree with our determinations regarding our prior or present PFIC status and, depending on future events, we could become a PFIC in future years.

For a more detailed discussion of the consequences of our being classified as a PFIC, see “Item 10.E: Taxation” below under the caption “U.S. Tax Considerations Regarding Ordinary Shares.”

Risks Relating to our Ordinary Shares

You may have difficulty enforcing U.S. judgments against us in Israel. We are organized under the laws of Israel and our headquarters are in Israel. All of our officers and directors reside outside of the United States. Therefore, it may be difficult to effect service of process upon us or any of these persons within the United States. In addition, you may not be able to enforce any judgment obtained in the U.S. against us or any of such persons in Israel and in any event will be required to file a request with an Israeli court for recognition or enforcement of any non-Israeli judgment. Subject to certain time limitations, executory judgments of a United States court for liquidated damages in civil matters may be enforced by an Israeli court, provided that: (i) the judgment was obtained after due process before a court of competent jurisdiction, that recognizes and enforces similar judgments of Israeli courts and according to the rules of private international law currently prevailing in Israel, (ii) adequate service of process was effected and the defendant had a reasonable opportunity to be heard, (iii) the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel, (iv) the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties, (v) the judgment is no longer appealable, and (vi) an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court. If a foreign judgment is enforced by an Israeli court, it will be payable in Israeli currency. You may not be able to enforce civil actions under U.S. securities laws if you file a lawsuit in Israel.

We may rely on certain Israeli “home country” corporate governance practices which may not afford shareholders the same protection afforded to stockholders of U.S. companies. As a foreign private issuer for purposes of U.S. securities laws, NYSE American LLC rules allow us to follow certain Israeli “home country” corporate governance practices in lieu of the corresponding NYSE American LLC corporate governance rules. Such home country practices may not afford shareholders the same level of rights or protections in certain matters as those of stockholders of U.S. domestic companies. To the extent we are entitled to elect to follow Israeli law and practice rather than corresponding U.S. law or practice, such as with regard to the requirement for shareholder approval of changes to option plans, our shareholders may not be afforded the same level of rights they would have under U.S. practice.

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law. We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum and articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, each shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company’s articles of association, increases in a company’s authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or officer in the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revisions in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

Tax audits may result in an obligation to make material payments to tax authorities at the conclusion of these audits. We conduct our business globally (currently in Israel, Luxemburg, Italy, Spain and The Netherlands). Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable laws in the jurisdictions in which we file. Not all of the tax returns of our operations in other countries and in Israel are final and we may be subject to further audit and assessment by the applicable tax authorities. For example, during 2018, following a tax inspection and a final settlement reached with the tax authorities, we reduced our carry forward tax losses by approximately €20 million, resulting in remaining available carry forward tax losses, carry forward capital tax losses and deductions as of December 31, 2018 in an aggregate of approximately €20.8 million. Such audits often result in proposed assessments and any estimation of the potential outcome of an uncertain tax issue is a matter for judgment, which can be subjective and highly complex. While we believe we comply with applicable tax laws and that we provided adequately for any reasonably foreseeable outcomes related to the tax audit, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes, as a result of which our future results may be adversely affected. Although we believe our estimates to be reasonable, the ultimate outcome of such audits, and of any related litigation, could differ materially from our provisions for taxes, which may have a material adverse effect on our consolidated financial statements.

We are controlled by a small number of shareholders, who may make decisions with which you may disagree and which may also prevent a change of control via purchases in the market. Currently, a group of investors comprised of Kanir Joint Investments (2005) Limited Partnership, or Kanir, and S. Nechama Investments (2008) Ltd., or Nechama Investments, hold an aggregate of 57.7% of our outstanding ordinary shares. Shlomo Nehama, our Chairman of the Board who controls Nechama Investments holds directly an additional 4.4% of our outstanding ordinary shares, Ran Fridrich, our CEO and a member of our Board of Directors, holds directly an additional 1.1% of our outstanding ordinary shares and Hemi Raphael, a member of our Board of Directors who, together with Ran Fridrich, controls the general partner of Kanir, directly and indirectly holds an additional 4.3% of our outstanding ordinary shares. Therefore, acting together, these shareholders could exercise significant influence over our business, including with respect to the election of our directors and the approval of change in control and other material transactions. This concentration of control may have the effect of delaying or preventing changes in control or changes in management, or limiting the ability of our other shareholders to approve transactions that they may deem to be in their best interest. In addition, as a result of this concentration of control, we are deemed a “controlled company” for purposes of NYSE American LLC rules and as such we are not subject to certain NYSE American LLC corporate governance rules. Moreover, our Second Amended and Restated Articles includes the casting vote provided to our Chairman of the Board under certain circumstances and the ability of members of our Board to demand that certain issues be approved by our shareholders, requiring a special majority, all as more fully described in “Memorandum of Association and Second Amended and Restated Articles” below may have the effect of delaying or preventing certain changes and corporate actions that would otherwise benefit our shareholders.

Our ordinary shares are listed in two markets and this may result in price variations that could affect the trading price of our ordinary sharesOur ordinary shares are listed on the NYSE American LLC and on the Tel Aviv Stock Exchange, or TASE, both under the symbol “ELLO.” Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on the NYSE American LLC and New Israeli Shekels on the TASE), and at different times (due to the different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets may differ due to these and other factors. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

Our future non-compliance with the continued listing requirements of the NYSE American LLC could cause the delisting of our ordinary shares. The NYSE American LLC requires listed companies to comply with continued listing requirements, including with respect to stockholders’ equity, distribution of shares and minimum selling price. There can be no assurance that we will continue to qualify for listing on the NYSE American LLC. If our ordinary shares are delisted from the NYSE American LLC, trading in our ordinary shares in the United States could be conducted on an electronic bulletin board such as the OTC Bulletin Board, which could affect the liquidity of our ordinary shares and the ability of the shareholders to sell their ordinary shares in the secondary market, which, in turn, may adversely affect the market price of our ordinary shares. In addition, as our shares are also traded on the TASE, to the extent our shares are delisted from the NYSE American LLC we could decide to cease being a reporting company under the Securities Exchange Act of 1934, as amended, which may make it more difficult for investors to find up to date information about us, in English or at all. Moreover, in the event our ordinary shares are delisted from the NYSE American LLC but still listed on the TASE, we will be required to start filing and publishing reports with the Israeli authorities in a similar manner to the Israeli public companies whose shares are not listed on an exchange recognized by the Israeli regulator, which will subject us to additional substantial expenses and to additional regulatory requirements that may have an adverse effect on our results of operations.

We have not paid a cash dividend or buyback a substantial amount of shares since 2016 and there is no assurance we will do so in the future. On March 18, 2015, our Board of Directors adopted a dividend distribution policy, which applies to the payment of dividends and the repurchase of our shares and in May 2015, our Board of Directors approved a \$3 million share buyback plan. In 2016, we distributed a cash dividend in the amount of \$0.225 per share (an aggregate distribution of approximately \$2.4 million). We did not pay any cash dividend or announce an additional share buyback plan during 2017 or 2018. Future dividends or future share buyback plans will depend on our earnings, if any, capital requirements, general financial condition and applicable legal and contractual constraints in connection with distribution of profits, and will be within the discretion of our then-board of directors. There can be no assurance that any additional dividends will be paid or share buyback programs adopted, as to the timing or the amount of the dividends or share buyback programs, or as to whether our Board of Directors will elect to distribute our profits by means of share repurchases or a distribution of a cash or other dividend. In addition, the terms of the deeds of trust governing our Debentures restrict our ability to make “distributions” (as such term is defined in the Israeli Companies Law, 1999, as amended, or the Companies Law, which includes cash dividends and repurchase of shares). For more information see “Item 5.B: Liquidity and Capital Resources” and “Item 8.A: Financial Information; Consolidated Statements and Other Financial Information; Dividends” below.

Our stock price has been very volatile in the past and may continue to be volatile, which could adversely affect the market liquidity of our ordinary shares and our ability to raise additional funds. The market liquidity and analyst coverage of our ordinary shares is limited Our ordinary shares have experienced substantial price volatility, particularly as there is still very limited volume of trading in our ordinary shares and every transaction performed significantly influences the market price. Although our ordinary shares are listed both on the NYSE American LLC and on the TASE, there is still limited liquidity, and combined with the general economic and political conditions, these circumstances cause the market price for our ordinary shares to continue to be volatile. The continuance of such factors and other factors relating to our business may materially adversely affect the market price of our ordinary shares in the future and could result in lower prices for our ordinary shares than might otherwise prevail and in larger spreads between the bid and asked prices for our ordinary shares. These issues could materially impair our ability to raise funds through the issuance of our ordinary shares in the securities markets.

Provisions of Israeli law may delay, prevent or make difficult an acquisition of Ellomay or a controlling position in Ellomay, which could prevent a change of control and, therefore, depress the price of our shares. Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. These provisions of Israeli law may delay, prevent or make difficult an acquisition of Ellomay, which could prevent a change of control and therefore depress the price of our shares.

ITEM 4: Information on Ellomay

A. History and Development of Ellomay

Our legal and commercial name is Ellomay Capital Ltd. Our office is located at 9 Rothschild Boulevard, 2^d floor, Tel-Aviv 6688112, Israel, and our telephone number is +972-3-7971111. Our registered agent in the United States is CT Corporation System, 111 Eight Avenue, New York, New York 10011.

We were incorporated as an Israeli corporation under the name Nur Advertisement Industries 1987 Ltd. on July 29, 1987. On August 1, 1993, we changed our name to NUR Advanced Technologies Ltd., on November 16, 1997 we again changed our name to NUR Macroprinters Ltd. and on April 7, 2008, in connection with the closing of the sale of our business to HP, we again changed our name to Ellomay Capital Ltd. Our corporate governance is controlled by the Companies Law.

Our ordinary shares are currently listed on the NYSE American LLC and are also listed on the Tel Aviv Stock Exchange under the trading symbol “ELLO” under the Israeli regulatory “dual listing” regime that provides companies whose securities are listed both in the NYSE American LLC and the TASE certain reporting leniencies.

Recent Developments

The Talasol Project

In April 2017, we, through Ellomay Luxemburg Holdings S.à.r.l., our wholly-owned subsidiary, or Ellomay Luxemburg, entered into a share purchase agreement, or the Talasol SPA, pursuant to which Ellomay Luxemburg acquired the entire share capital of a Spanish company, Talasol Solar S.L.U., or Talasol, which is promoting the construction of the Talasol Project. The Talasol SPA provides that the purchase price for Talasol's shares is €10 million, to be paid following the occurrence of customary conditions subsequent. An amount of €8 million out of such purchase price was deposited in escrow during May 2017. In October 2018, Ellomay Luxemburg paid €1 million as a down-payment based on an understanding reached with the sellers of the Talasol shares and in January 2019, following the fulfilment or waiver of the conditions subsequent, an additional amount of €7 million was paid to the sellers, thus releasing the €8 million escrow deposited in May 2017. An additional amount of €2 million was deposited in a trust account held in escrow to be released to the sellers of Talasol upon the earliest of three years following the execution of the Talasol SPA or the issuance of the commissioning certificate of the Talasol Project.

In June 2018, Talasol entered into an engineering, procurement & construction agreement, or the Talasol EPC Agreement, with METKA EGN Limited, or METKA EGN, following a tender process initiated by Talasol. The Talasol EPC Agreement provides a fixed and lump-sum amount of euro 192.5 million for the complete execution and performance of the works defined in the Talasol EPC Agreement. The works include the engineering, procurement and construction of the Talasol Project and the ancillary facilities for injecting power into the grid, including a 400 kV step-up substation, the high voltage interconnection line to the point of connection to the grid and performance of two years of operation and maintenance, or O&M, services. METKA EGN is expected to complete the works under the EPC Agreement within a period of 16 months from the commencement date. The Talasol EPC Agreement further provides that in the event the Talasol Project does not reach financial closing within 14 months of the execution date, both parties can terminate the Talasol EPC Agreement. The Talasol EPC Agreement includes additional standard provisions, including with respect to liquidated damages in connection with delays and performance, performance guarantees, suspension and termination.

In June 2018, Talasol executed a financial power swap, or the Talasol PPA, in respect of approximately 80% of the output of a prospective photovoltaic plant for a period of 10 years. The Talasol PPA was executed with a leading international energy company with a solid investment grade credit rating and a pan-European asset base, which is active in more than forty countries and has a proven track record in financial hedges. The power produced by the Talasol Project is expected to be sold in the open market for the then current market power price. The Talasol PPA is expected to hedge the risks associated with fluctuating electricity market prices by allowing Talasol to secure a certain level of income for the power production included under the Talasol PPA. The hedging provides that if the market price goes below a price underpinned by the Talasol PPA, the Hedging Provider will pay Talasol the difference between the market price and the underpinned price, and if the market price is above the underpinned price, Talasol will pay the Hedging Provider the difference between the market price and the underpinned price. The hedge transaction becomes effective on Talasol requesting that the counter party will fix the fixed price pursuant to the price adjustment mechanism. Talasol has the right to do this at any time following the execution of the Talasol PPA and no later than March 31, 2019. In March 2019, Talasol provided a request to fix the fixed price no later than March 31, 2019.

In July 2018, Talasol executed a pre-hedge transaction with Goldman Sachs International in connection with the prospective project financing for the construction of a photovoltaic plant. The pre-hedge transaction is a fixed for floating interest rate swap intended to lock-in current market floating rates.

In December 2018, Talasol entered into agreements governing the procurement of financing in the aggregate amount of approximately euro 177 million, or the Talasol Project Finance. The Talasol Project Finance is intended to finance the development and construction of the Talasol Project. The Talasol Project Finance is expected to be financed by a consortium led by Deutsche Bank, which is the mandated lead arranger, and the European Investment Bank, or EIB. For more information concerning the Talasol Project Finance see “Item 4.B: Business – Talasol Project Finance.”

Based on current technical analysis of the design provided by the EPC contractor of the Talasol Project, the P50 expected production of the Talasol Project is approximately 561 GWh per annum. It is expected that the Talasol Project’s CAPEX will amount to approximately euro 200-230 million, including development costs of approximately euro 20 million and interest of approximately euro 7 million. Based on the current technical analysis, a price projection analysis and the expected hedging effect of the Talasol PPA, a price projection analysis and the expected hedging effect of the PPA, the Talasol Project’s annual revenues are currently expected to be in the range of euro 20-25 million. The currently expected annual operating expenses are euro 6 million per annum, thus the currently expected annual operating income, is in the range of euro 14-19 million.

The continued development of the Talasol Project is subject to risks and uncertainties, including with respect to the Company’s ability to obtain the equity required in order to commence the construction of the Talasol Project, and other conditions that are not entirely within the control of the Company or Talasol, as they include the procurement of financing or other funding sources, such as potential investors and partners, on terms acceptable to the Company and Talasol. The projected production, revenues and other future results and outcomes included herein are based on the current expectations and assumptions of the Company and its advisors and are subject to various conditions and circumstances. Moreover, the Company may, in its sole discretion, decide not to pursue the Talasol Project in the event of changes in the market or other circumstances. For more information concerning these and other risks see under “Item 3.D: Risk Factors - Risks Related to our Business.”

Waste-to-Energy Projects in the Netherlands

In June 2018, the anaerobic digestion plant, with a green gas production capacity of approximately 475 Nm³/h, in Oude Tonge, the Netherlands, or the Oude Tonge Project, in which we currently indirectly own 51% commenced operations.

In March 2019, we executed an agreement, or the Ludan Acquisition Agreement, with Ludan and several entities affiliated with Ludan, for the acquisition by Ellomay Luxemburg of 49% of the companies that own the WtE Projects in Goor and Oude-Tonge, both in the Netherlands. As we currently indirectly own 51% of the WtE Projects, following consummation of the acquisition contemplated by the Ludan Acquisition Agreement, we will indirectly wholly-own the WtE Projects in their entirety. The consummation of the acquisition contemplated by the Ludan Acquisition Agreement is subject to customary conditions, including the approval of the financing bank of the WtE Projects. The Ludan Acquisition Agreement also provides for the immediate (and unconditional) termination of the operations and maintenance arrangement of the WtE Projects with Ludan’s affiliates effective as of January 27, 2019.

The Manara Pumped Storage Project

In October 2018, Ellomay PS, in which we indirectly own 75% and which is advancing the construction of the Manara PSP, executed a letter of appointment, or the Letter of Appointment, with two companies that are subsidiaries of, and controlled by, Electra Ltd. (TASE: ELTR), or, such subsidiaries together, Electra. The Letter of Appointment provides for the appointment of Electra, on an exclusive basis, as the main contractor for the Manara PSP. The Letter of Appointment provides a contract price of approximately \$300 million, all subject to an indexation mechanism. The parties to the Letter of Appointment undertook to continue their good faith negotiations in order to reach a final form for an Engineering, Procurement and Construction Contract, or an EPC Contract. The Letter of Appointment is effective until September 30, 2019, subject to earlier termination in accordance with its terms. The execution of the EPC Contract is subject to the parties reaching an understanding in connection with open commercial issues, the receipt of requisite corporate approvals and the approval of the financing entity of the Manara PSP. The performance of the EPC Contract is further subject to the financial closing of the Manara PSP, currently expected to happen during the second half of 2019. There is no assurance that the parties to the Letter of Appointment will reach an understanding and execute an EPC Contract or that the Manara PSP will obtain financing on terms acceptable to us or at all.

In December 2018, we executed a settlement agreement, or the A.R.Z. Settlement Agreement, with A.R.Z. Electricity Ltd., or A.R.Z. Electricity, an Israeli private company that holds 33.33% of Sheva Mizrakot Ltd., which in its turn holds 25% of the company promoting the Manara PSP, in which we hold an indirect 75% interest. The A.R.Z. Settlement Agreement resolves a claim made by A.R.Z. Electricity and Mr. Raanan Aloni against us and our affiliates, in connection with the Manara PSP, and other disputes between such parties concerning the Manara PSP. The A.R.Z. Settlement Agreement provides, inter alia, for the grant to A.R.Z. Electricity of a right to acquire, on financial closing of the Manara PSP (to the extent such financial closing occurs), an additional 6.67% of the Manara PSP. The acquisition by A.R.Z. Electricity of this additional stake in the Manara PSP is subject to the fulfillment of various conditions precedent including, inter alia, the full and timely payment by A.R.Z. Electricity and Raanan Aloni of all their obligations, under all applicable agreements, to the project company and to us and our affiliates, as well as the repayment of all amounts paid by us and our affiliates to the project company, on account of A.R.Z. Electricity's existing (8.33%) and potential additional (6.67%) stake in the Manara PSP, plus interest at a rate of 5% per annum.

In March 2019, following Ellomay PS's request to extend certain dates and deadlines in the conditional license granted to it due to the continuation of the planning procedures in the National Infrastructure Committee and the Israel Land Authority, the Israeli Electricity Authority resolved to extend certain deadlines and dates set forth in the conditional license held by Ellomay PS. The extensions include, among others: (i) an extension of the term of the conditional license by 24 months to 96 months, (ii) an extension of the deadline for obtaining a building permit by 3 months to 33 months commencing upon the effective date of the conditional license, and (iii) an extension of the deadline for financial closing by 12 months to 42 months commencing upon the effective date of the conditional license. The Israeli Electricity Authority's resolution will become effective following the receipt of the approval of the Israeli Minister of National Infrastructures, Energy and Water, or the Minister, and is also subject to the forfeiture of a bank guarantee provided by Ellomay PS in the amount of approximately NIS 2.1 million (approximately €0.5 million) and of an additional amount of approximately NIS 1 million (approximately €0.23 million) out of bank guarantees Ellomay PS will be required to provide in connection with the extension.

Financing of Spanish PV Plants

On March 12, 2019, four of our Spanish indirect wholly-owned subsidiaries, Rodríguez I Parque Solar, S.L.U., Rodríguez II Parque Solar, S.L.U., Seguisolar, S.L.U. and Ellomay Spain, S.L. entered into a facility agreement governing the procurement of project financing in the aggregate amount of approximately €18.4 million with Bankinter, S.A. For more information see “Item 4.B: Business – Spanish PV Plants Project Finance.”

Principal Capital Expenditures and Divestitures

From 2014 through March 1, 2019, we made aggregate capital expenditures of approximately euro 9.8 million in connection with our Spanish PV Plants. Our aggregate capital expenditure in connection with the acquisition of the Talmei Yosef PV Plant was approximately NIS 48.6 million (approximately €11.8 million, based on the NIS/euro exchange rate as of March 1, 2019). Our aggregate capital expenditure in connection with the acquisition of shares in U. Dori Energy Infrastructure Ltd., including the exercise of options to acquire additional shares of U. Dori Energy during 2015 and 2016, which increased our percentage holding to 50%, before principal loan repayments from Dori Energy, is approximately NIS 108.8 million (approximately €26.4 million, based on the NIS/euro exchange rate as of March 1, 2019). The aggregate capital expenditures in connection with the Manara PSP through March 1, 2019 were approximately NIS 23.7 million (approximately €5.8 million). Our aggregate capital expenditures in connection with the Waste-to-Energy Projects in the Netherlands through March 1, 2019 were approximately €18.7 million.

For further information on our financing activities please refer to “Item 4.B: Business Overview” and “Item 5: Operating and Financial Review and Prospects.”

B. Business Overview

We are involved in the production of renewable and clean energy. We own seventeen PV Plants that are operating and connected to their respective national grids as follows: (i) twelve photovoltaic plants in Italy with an aggregate installed capacity of approximately 22.6 MWp, (ii) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp and (iii) one photovoltaic plant in Israel with an installed capacity of approximately 9 MWp. In addition, we indirectly own: (i) 9.375% of Dorad, which owns an approximate 850 MWp bi-fuel operated power plant in the vicinity of Ashkelon, Israel, (ii) 51% of Groen Gas Goor B.V and of Groen Gas Oude-Tonge B.V., project companies operating anaerobic digestion plants with a green gas production capacity of approximately 375 Nm³/h, in Goor, the Netherlands and 475 Nm³/h, in Oude Tonge, the Netherlands, respectively, (iii) Talasol, which is involved in a project to construct a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain, and (iv) 75% of Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd., all of which are involved in a project to construct a 156 MW pumped storage hydro power plant in the Manara Cliff, Israel.

Photovoltaic Industry Background

Clean electricity generation accounts for a growing share of electric power. While a majority of the world's current electricity supply is still generated from fossil fuels such as coal, oil and natural gas, these traditional energy sources face a number of challenges including fluctuating prices, security concerns over dependence on imports from a limited number of countries, and growing environmental concerns over the climate change risks associated with power generation using fossil fuels. As a result of these and other challenges facing traditional energy sources, governments, businesses and consumers are increasingly supporting the development of alternative energy sources, including solar energy, the fastest-growing source of renewable energy.

By extracting energy directly from the sun and converting it into an immediately usable form, either as heat or electricity, intermediate steps are eliminated.

Global trends in the industry

Based on currently available provisional numbers (which will be verified in Spring 2019): (a) in 2018 the PV market reached 8 GW in Europe and 100 GW worldwide, (b) by the end of 2018, the cumulative PV installations reached 122.6 GW in Europe and 515 GW worldwide, (c) the global solar market in 2018 was dominated by China, which connected 53 GW to the grid, a 54% increase with respect to 2016. China alone with 131 GW of installed capacity is followed by USA (51 GW), Japan (49 GW) and Germany (42 GW), (d) Europe with more than 111 GW of total capacity installed is left behind the Asian countries with 219 GW, and (e) in the Middle East in 2018, Turkey installed 2.6 GW and Israel 60 MW.

New solar installations in Israel are far behind the government targets - the government target for 2030 is based on 17% renewable energy production out of the total energy production in Israel. The current renewable energy production out of the total energy production in Israel is approximately 4.5%.

In 2018, the European Parliament adopted four of the eight legislative proposals included in the "Clean Energy for All Europeans" package presented by the European Union in 2016. The directives adopted are: the Energy Performance in Buildings Directive, the Renewable Energy Directive, the Energy Efficiency Directive and the Governance Regulation. The new Directives, among other things, fix two new targets for the EU in 2030: a binding renewable energy target of at least 32% and an energy efficiency target of at least 32.5%. The additional four proposals are: the Electricity Directive, the Electricity Regulation, the Risk-Preparedness Regulation and the Regulation for the Agency for the Cooperation of Energy Regulators (ACER), which are expected to be approved during early 2019.

Solar power systems convert the energy in sunlight directly into electrical energy within solar cells based on the photovoltaic effect. Multiple solar cells, which produce DC power, are electrically interconnected into solar panels. A typical solar panel may have several dozens of individual solar cells. Multiple solar panels are electrically wired together and are electrically wired to an inverter, which converts the power from DC to AC and interconnects with the utility grid.

Solar electric cells convert light energy into electricity at the atomic level. The conversion efficiency of a solar electric cell is defined as the ratio of the sunlight energy that hits the cell divided by the electrical energy that is produced by the cell. In recent years, effort in the industry has been directed towards the development of solar cell technology that reduces per watt costs and increases conversion efficiency. Solar electric cells today are getting better at converting sunlight to electricity, but commercial panels still harvest only part of the radiation they are exposed to. Scientists are working to improve solar panels' efficiency using various methods.

Solar electric panels are composed of multiple solar cells, along with the necessary internal wiring, aluminum and glass framework, and external electrical connections.

Inverters convert the DC power from solar panels to the AC power distributed by the electricity grid. Grid-tie inverters synchronize to utility voltage and frequency and only operate when utility power is stable (in the case of a power failure these grid-tie inverters shut down to safeguard utility personnel from possible harm during repairs). Inverters also operate to maximize the power extracted from the solar panels, regulating the voltage and current output of the solar array based on sun intensity.

Monitoring. There are two basic approaches to access information on the performance of a solar power system. The most accurate and reliable approach is to collect the solar power performance data locally from the counters and the inverter with a hard-wired connection and then transmit that data via the internet to a centralized database. Data on the performance of a system can then be accessed from any device with a web browser, including personal computers and cell phones. As an alternative to web-based remote monitoring, most commercial inverters have a digital display on the inverter itself that shows performance data and can also display this data on a nearby personal computer with a hard-wired or wireless connection.

Tracker Technology vs. Fixed Technology

Some of our PV Plants use fixed solar panels while others use panels equipped with single or dual axis tracking technology. Tracking technology is used to minimize the angle of incidence between the incoming light and a photovoltaic panel. As photovoltaic panels accept direct and diffuse light energy and panels using tracking technology always gather the available direct light, the amount of energy produced by such panels, compared to panels with a fixed amount of installed power generating capacity, is higher. As the double axis trackers allow the photovoltaic production to stay closer to maximum capacity for many additional hours, an increase of approximately 20% (single) - 30% (dual) of the photovoltaic modules plane irradiation can be estimated. On the other hand, tracker technology requires more complex and expensive operations and maintenance and, as this is a more sophisticated technology, it is exposed to more defects.

The direct conversion of light into energy offers the following benefits compared to conventional energy sources:

- Reliability - Solar energy production does not require fossil fuels and is therefore less dependent on this limited natural resource with volatile prices. Although there is variability in the amount and timing of sunlight over the day, season and year, a properly sized and configured system can be designed to be highly reliable while providing long-term, fixed price electricity supply.
- Convenience - Solar power systems can be installed on a wide range of sites, including small residential roofs, the ground, covered parking structures and large industrial buildings. Most solar power systems also have few, if any, moving parts and are generally guaranteed to operate for 20-25 years, resulting in low maintenance and operating costs and reliability compared to other forms of power generation.
- Cost-effectiveness - While solar power has historically been more expensive than fossil fuels, there are continual advancements in solar panel technology which increase the efficiency and lower the cost of production, thus making the production of solar energy even more cost effective.
- Environmental - Solar power is one of the cleanest electric generation sources, capable of generating electricity without air or water emissions, noise, vibration, habitat impact or waste generation. In particular, solar power does not generate greenhouse gases that contribute to global climate change or other air pollutants, as power generation based on fossil fuel combustion does, and does not generate radioactive or other wastes as nuclear power and coal combustion do. It is anticipated that environmental protection agencies will limit the use of fossil fuel based electric generation and increase the attractiveness of solar power as a renewable electricity source.
- Security - Producing solar power improves energy security both on an international level (by reducing fossil energy purchases from hostile countries) and a local level (by reducing power strains on local electrical transmission and distribution systems).

These benefits impacted our decision to enter into the solar photovoltaic market. We believe the fluctuations in fuel costs, environmental concerns and energy security make it likely that the demand for solar power production will continue to grow. Many countries, including Italy and Spain, have put incentive programs in place to spur the installation of grid-tied solar power systems. For further information please see “Material Effects of Government Regulations on the PV Plants.”

Measuring the Performance of Solar Power Plants

One of the main factors for measuring the efficiency and quality of a power plant is the performance ratio (PR). The performance ratio is stated as percent and describes the relationship between the actual and theoretical energy outputs of the PV plant. This calculation provides the proportion of the energy that is actually available for export to the electricity grid after deduction of any energy losses and of energy consumption for the operation of the PV plant. The performance ratio can be used to compare PV plants at different locations as the calculation is independent of the location of a PV plant. The closer the performance ratio is to 100%, the more efficient the relevant PV plant is operating, however, a PV plant cannot reach a performance ratio of 100% as there are inevitable losses and use of energy of the PV plant. High-performance PV plants can however reach a performance ratio higher than 80%.

There are several risk factors associated with the photovoltaic market. See “Item 3.D: Risk Factors - Risks Related to our Business.”

Our Photovoltaic Plants



The following table includes information concerning our PV Plants:

PV Plant Title	Installed Capacity¹	Location	Technology of Panels	Connection to Grid	FiT or Fixed Tariff²	Revenue in the year ended December 31, 2017 (in thousands)³	Revenue in the year ended December 31, 2018 (in thousands)³
“Troia 8”	995.67 kWp	Province of Foggia, Municipality of Troia, Puglia region, Italy	Fix	January 14, 2011	0.318 (€/kWh)	€560	€515
“Troia 9”	995.67 kWp	Province of Foggia, Municipality of Troia, Puglia region, Italy	Fix	January 14, 2011	0.318 (€/kWh)	€574	€528
“Del Bianco”	734.40 kWp	Province of Macerata, Municipality of Cingoli, Marche region, Italy	Fix	April 1, 2011	0.3215 (€/kWh)	€390	€351
“Giachè”	730.01 kWp	Province of Ancona, Municipality of Filotrano, Marche region, Italy	Dual Axes Tracker	April 14, 2011	0.3215 (€/kWh)	€497	€398
“Costantini”	734.40 kWp	Province of Ancona, Municipality of Senigallia, Marche region, Italy	Fix	April 27, 2011	0.3215 (€/kWh)	€407	€367
“Massaccesi”	749.7 kWp	Province of Ancona, Municipality of Arcevia, Marche region, Italy	Dual Axes Tracker	April 29, 2011	0.3215 (€/kWh)	€466	€443

PV Plant Title	Installed Capacity¹	Location	Technology of Panels	Connection to Grid	FiT or Fixed Tariff²	Revenue in the year ended December 31, 2017 (in thousands)³	Revenue in the year ended December 31, 2018 (in thousands)³
“Galatina”	994.43 kWp	Province of Lecce, Municipality of Galatina, Puglia region, Italy	Fix	May 25, 2011	0.318 (€/kWh)	€526	€442
“Pedale (Corato)”	2,993 kWp	Province of Bari, Municipality of Corato, Puglia region, Italy	Single Axes Tracker	May 31, 2011	0.2659 (€/kWh)	€1,739	€1,618
“Acquafresca”	947.6 kWp	Province of Barletta-Andria-Trani, Municipality of Minervino Murge, Puglia region, Italy	Fix	June 2011	0.2677 (€/kWh)	€447	€410
“D’Angella”	930.5 kWp	Province of Barletta-Andria-Trani, Municipality of Minervino Murge, Puglia region, Italy	Fix	June 2011	0.2677 (€/kWh)	€443	€408
“Soleco”	5,923.5 kWp	Province of Rovigo, Municipality of Canaro, Veneto region, Italy	Fix	August 2011	0.2189 (€/kWh)	€2,028	€2,068
“Tecnoenergy”	5,899.5 kWp	Province of Rovigo, Municipality of Canaro, Veneto region, Italy	Fix	August 2011	0.2189 (€/kWh)	€2,067	€2,013

PV Plant Title	Installed Capacity ¹	Location	Technology of Panels	Connection to Grid	FiT or Fixed Tariff ²	Revenue in the year ended December 31, 2017 (in thousands) ³	Revenue in the year ended December 31, 2018 (in thousands) ³
“Rinconada II”	2,275 kWp	Municipality of Córdoba, Andalusia, Spain	Fix	July 2010	N/A	€864	€851
“Rodríguez I”	1,675 kWp	Province of Murcia, Spain	Fix	November 2011	N/A	€619	€631
“Rodríguez II”	2,691 kWp	Province of Murcia, Spain	Fix	November 2011	N/A	€1,020	€1,045
“Fuente Librilla”	1,248 kWp	Province of Murcia, Spain	Fix	June 2011	N/A	€504	€506
“Talmei Yosef” ⁴	9,000 kWp	Talmei Yosef, Israel	Fix	November 2013	0.9857 ⁵ (NIS/kWh)	€183 ⁶	€1,041 ⁶

- The actual capacity of a photovoltaic plant is generally subject to a degradation of 0.5%-0.7% per year, depending on climate conditions and quality of the solar panels.
- In addition to the FiT payment, our Italian PV Plants have entered into agreements with energy brokers who purchase the electricity generated by our Italian PV Plants in consideration for the contractually agreed prices.
- These results are not indicative of future results due to various factors, including changes in the climate and the degradation of the solar panels.
- The acquisition of this PV Plant was consummated on October 18, 2017 and therefore revenues for the period prior to consummation of the acquisition are not reflected herein.
- The tariff of NIS 0.9631/kWh is fixed for a period of 20 years and is updated once a year based on changes to the Israeli CPI of October 2011. The tariff increased from NIS 0.976/kWh in November 2013 to NIS 0.9857/kWh in 2018.
- As a result of the accounting treatment of the Talmei Yosef PV Plant as a financial asset, out of total proceeds from the sale of electricity of approximately €3.8 million for the year ended December 31, 2018, only revenues related to the ongoing operation of the plant in the amount of approximately €1 million are recognized as revenues.

Photovoltaic Plants

The construction and operation of photovoltaic plants entail the engagement of Contractors, in order to build, assemble, install, test, commission, operate and maintain the photovoltaic power plants, for the benefit of our wholly-owned subsidiaries.

Each of the PV Plants is constructed and operates on the basis of the following main agreements:

- an Engineering, Procurement & Construction projects Contract, or an EPC Contract, which governs the installation, testing and commissioning of a photovoltaic plant by the respective Contractor;

- an Operation and Maintenance (O&M) Agreement, which governs the operation and maintenance of the photovoltaic plant by the respective Contractor;
- a number of ancillary agreements, including:
 - o one or more “surface rights agreements” or “lease agreements” with the land owners, which provide the terms and conditions for the lease of land on which the photovoltaic plants are constructed and operated;
 - o with respect to our Italian PV Plants –
 - standard “incentive agreements” with Gestore dei Servizi Elettrici, or GSE, Italy’s energy regulation agency responsible, *inter alia*, for incentivizing and developing renewable energy sources in Italy and purchasing energy and re-selling it on the electricity market. Under such agreements, it is anticipated that GSE will grant the applicable FiT governing the purchase of electricity (FiTs are further detailed in “Material Effects of Government Regulations on the Italian PV Plants”);
 - one or more “power purchase agreements” with GSE, specifying the power output to be purchased by GSE for resale and the consideration in respect thereof or, alternatively, a “power purchase agreements” with a private energy broker, specifying the power output to be purchased for resale and the consideration in respect thereof; and
 - one or more “interconnection agreements” with the Enel Distribuzione S.p.A, or ENEL, the Italian national electricity grid operator, which provide the terms and conditions for the connection to the Italian national grid.
 - o with respect to our Spanish PV Plants –
 - Standard “power distribution agreements” with the applicable Spanish power distribution grid company such as Endesa Distribución Eléctrica, S.L.U., or Endesa, or Iberdrola Distribución Eléctrica, S.A.U., or Iberdrola, regarding the rights and obligations of each party, concerning, *inter alia*, the evacuation of the power generated in the facility to the grid;

- Standard “representation agreements” with an entity that will act as the energy sales agent of the PV Plant in the energy market, in accordance with Spanish Royal Decree 436/2004; and
 - Assignment Contract (“contrato de encargo de proyecto”) and the Technical Access Contract (“Contracto técnico de acceso a la red de transporte”) with Red Eléctrica de España (the Spanish grid operator, or REE).
- o with respect to our Israeli PV Plant:
- A power purchase agreement with the IEC for the purchase of electricity by the IEC with a term of 20 years commencing on the date of connection to the grid.
- optionally, one or more “project financing agreements” with financing entities, as were already executed with respect to several of the PV Plants and as more fully described below, and as may be executed in the future with respect to one or more of the remaining PV Plants; and
 - a stock purchase agreement in the event we acquire an existing company that owns a photovoltaic plant that is under construction or is already constructed.

Our aggregate capital expenditures to date in connection with our operational PV Plants is approximately €88.2 million.

The majority of our PV Plants are operational and the summaries below describe the material terms of the O&M Agreements executed in connection with such PV Plants. As noted above, we entered into an EPC Contract with respect to the Talasol Project, see below for additional details. Certain of the EPC Contracts and forms of O&M Agreements we executed in the past were filed as exhibits to previously filed annual reports on Form 20-F.

Operation and Maintenance Agreements

General

As mentioned above, each of the PV Plants is operated and maintained by a local contractor pursuant to an O&M Agreement executed between such Contractor and our subsidiary that owns the PV Plant, or the PV Principal. Each O&M Agreement sets out the terms under which each of the Contractors is to operate and maintain the PV Plant once it becomes operational.

In certain of our PV Plants (Del Bianco, Costantini, Soleco and Talmei Yosef), a technical adviser, or the Technical Advisor, was appointed by the Financing Entity, to monitor the performance of the services. Our current Technical Adviser in Italy and Israel is a leading technical firm which appears in the banks’ white list.

While the majority of our PV Plants replaced the original O&M Contractors to improve price and service levels, in certain cases the EPC companies still provides O&M services to the photovoltaic plants. We expect that, if required, we will be able to replace some or all of our current O&M Contractors with other contractors and service providers. However, we cannot ensure that if such replacement shall take place we will be able to receive the same terms and warranties from the new contractor. In addition, to the extent the relevant PV Plant received financing from a bank or other financing institution, the applicable financing agreement generally requires that we obtain the financing institution's approval for the replacement of an O&M contractor.

The Services

Each O&M Agreement governs the provision of the following services: (i) Subscription Services, which include Preventive Maintenance Services (maintenance services such as cleaning of panels and taking care of vegetation, surveillance, remote supervision of operation and full operational status of the PV Plant) and Corrective Maintenance Services (services to correct incidents arising at the PV Plant or to remedy any anomaly in the operation of the PV Plant), and (ii) Non-Subscription Services, which are all services outside the scope of the Subscription Services. In some cases, certain engagement agreements are executed by us directly with service providers (such as internet, security services, etc.).

The Consideration

Based on the range of services offered by the Contractor, the annual consideration for the Subscription Services varies from €19,000 to €36,000 per MWp (linked to the local Consumer Price Index) for each of the PV Plants, paid in the majority of the PV Plants on a quarterly basis. The Subscription Services fee is fixed and the Contractor is not entitled to request an increase in the price due to the occurrence of unforeseen circumstances. This annual consideration does not include the price of the insurance policies to be obtained by the PV Principal, including all risk insurance policies.

Contractor's Obligations, Representations and Warranties

The Contractor's obligations under the O&M Agreement include, *inter alia*, the duty to diligently perform the operation and maintenance services in compliance with the applicable law and permits in a workmanlike manner and using the most advanced technologies, to manage the spare parts and replenish the inventory as needed, and to assist the PV Principal and the Financing Entity in dealing with the authorities by providing the necessary information required by such authorities. The Contractor represents and warrants, *inter alia*, that it holds the necessary permits and authorizations, and that it has the necessary skills and experience to perform the services contemplated by the O&M Agreement.

Termination

Each party may terminate the O&M Agreement (to the extent applicable, after obtaining the approval of the financing entity) if the other is in breach of any of its obligations that remain uncured for 30 days following written notice thereof.

The O&M Agreement is terminated if the Contractor is liquidated or becomes bankrupt or insolvent, and on other similar grounds, unless the PV Principal is willing to continue the O&M Agreement.

The O&M Agreements also provide the parties the option to withdraw from the agreement other than in the event of a breach by the other party, subject to certain advance notice requirements.

Talasal Project Finance

In December 2018, Talasal entered into agreements governing the procurement of financing in the aggregate amount of approximately €177 million, or the Talasal Project Finance. The Talasal Project Finance is intended to finance the construction of the Talasal Project. The Talasal Project Finance includes the following facilities:

- a. a term facility in the amount of €70 million from Deutsche Bank AG (“DB”), with a term ending on September 30, 2033, repaid in unequal sculptured semi-annual installments. Loan amounts drawn from this facility will bear an annual interest of 6 month EURIBOR (with a zero floor) plus a margin determined based on the stage of the Talasal Project. The applicable margins are: (i) 2.25% until technical completion, (ii) 2% from technical completion until the 5th anniversary of technical completion, (iii) 2.25% from the 5th anniversary of technical completion until the termination date of the power hedge agreement that Talasal entered into last June (the “PPA”, i.e., September 30, 2030), and (iv) 2.5% from the termination date of the PPA until the end of the term of the commercial term facility;
- b. a revolving debt service reserve facility in the amount of €5 million from DB, with a term ending on the earlier of: (i) September 30, 2033 or (ii) the date on which the commercial term loan set forth under (a) above has been repaid in full. Loan amounts drawn from this facility will bear an annual interest of 6 month EURIBOR (with a zero floor) plus a margin determined based on the stage of the Talasal Project. The applicable margins are: (i) 2.5% until technical completion, (ii) 2.25% from technical completion until the 5th anniversary of technical completion, (iii) 2.50% from the 5th anniversary of technical completion until the termination date of the PPA, and (iv) 2.75% from the termination date of the PPA until the termination date;
- c. a VAT facility in the amount of €20 million from DB, with a term ending on June 30, 2021, repaid by using balances available in the VAT reimbursement account but in no event later than June 30, 2021. Loan amounts drawn from this facility will bear an annual interest of 6 month EURIBOR (with a zero floor) plus a margin of 2%;
- d. a letter of credit facility in the initial amount of €12 million, with a term ending on September 30, 2030, to be repaid in full on its termination date and bearing an annual interest of (i) 1.25% for amounts cash covered, and (ii) 2% for any other amounts;
- e. a term facility in the amount of €65 million from EIB, granted under the Investment Plan for Europe known as the Juncker Plan, with a term ending on September 30, 2033, repaid in unequal sculptured semi-annual installments. Loan amounts drawn from this facility will bear an annual interest of 6 month EURIBOR plus a margin (expected to be 1.757%); and
- f. a revolving debt service reserve facility from the EIB in the amount of €5 million granted by EIB under the Investment Plan for Europe, with a term ending on the earlier of: (i) September 30, 2033 or (ii) the date on which the commercial term loan set forth under (e) above has been repaid in full. Loans drawn from this facility will bear an annual interest of 6 month EURIBOR (with a zero floor) plus a margin, which is expected to be similar to the CFL Debt Service Reserve Facility under (b) above.

The final amount of the various facilities (other than the letter of credit facility amount, which is fixed) will be determined based on an agreed financial model as of the date of financial closing, taking into account certain variables, including interest rate SWAP, the PPA adjusted fixed price, power price projections and the agreed DSCR, and is expected to be up to €177 million.

During the construction period, interest payments on the term, revolving debt and VAT facilities will be made on a monthly basis, and semi-annually thereafter (commencing March 31, 2021). The agreements executed in connection with the Talasol Project Finance provide for mandatory prepayment upon the occurrence of certain events and various customary representations, warranties and covenants, including covenants to maintain a Historic and Projected DSCR not lower than 1.05:1, and not to make distributions in the event that: (i) the Historic and Projected DSCR will be lower than 1.15:1.0 and (ii) the Loan Life Cover Ratio will be lower than 1.20:1.0. The facilities provided by the EIB include certain other representations and undertakings mandated by applicable EU regulation.

The Talasol Project Finance documents require that security interests be provided in connection with the following: (i) Talasol's shares (held by the Company's wholly-owned subsidiary, Ellomay Luxemburg), (ii) pledges over accounts, (iii) pledges over Talasol Project's documents, (iv) pledges over receivables under the shareholders loans, (v) security assignment of hedging claims and (vi) promissory equipment mortgage.

The Talasol Project Finance documentation include several conditions to financial closing, including an obligation by Talasol to provide upfront equity in the amount of €40 million, closing of the engineering, procurement and construction contract that was signed on June 2018 and signing of the substation construction contract with Red Eléctrica de Espana, S.A.U. and additional customary conditions. In addition, Ellomay Lux committed to provide pro rata base equity in an aggregate amount currently expected to be (subject to the final debt sizing on financial closing as described above) approximately €51 million and contingent equity in an aggregate amount of €5.7 million, both backed by bank guarantees.

In connection with the Talasol Project Finance, Ellomay Luxemburg, our wholly-owned subsidiary and the parent company of Talasol and the Company undertook separately to (indirectly) retain at least 50.1% of the shares in Talasol and not to buy any debt of, or hedging claims against, Talasol from the entities providing the financing to the Talasol Project.

The Talasol Project Finance documentation requires Talasol to enter into interest swap agreements for an amount equal to at least 95% of the maximum amount of the term facilities and reflecting any regular cash sweep amounts as more fully explained below.

As the financing was structured for the term of the PPA signed in connection with the Talasol Project (ten years) plus additional three years beyond the term of the PPA, the Talasol Project Finance documentation requires Talasol to prepay the term loans via cash-sweeps to ensure that the term loans are repaid in full until the termination date of the PPA. Talasol has the option to place the relevant cash sweep amounts on a reserve account instead, and, in the event it enters into a satisfactory new power purchase agreement or power hedge agreement, the amounts on the reserve account may be transferred to the operating account of Talasol, to the extent they are not required in prepayment of the term loans to ensure that during the remainder of the term loans the base case ratios are complied with.

Spanish PV Plants Project Finance

On March 12, 2019, four of our Spanish indirect wholly-owned subsidiaries, Rodríguez I Parque Solar, S.L.U., Rodríguez II Parque Solar, S.L.U., Seguisolar, S.L.U. and Ellomay Spain, S.L., together, the Spanish Subsidiaries, entered into a facility agreement governing the procurement of project financing in the aggregate amount of approximately €18.4 million with Bankinter, S.A., or the Facility Agreement.

The Facility Agreement amount consists of the following tranches:

- a. in an amount of approximately €3.6 million, granted to Rodríguez I Parque Solar, S.L.U.;
- b. in an amount of approximately €6 million, granted to Rodríguez II Parque Solar, S.L.U.;
- c. in an amount of approximately €3 million, granted to Seguisolar, S.L.U.;
- d. in an amount of approximately €5 million, granted to Ellomay Spain, S.L.; and
- e. a revolving credit facility to attend the debt service if needed, for a maximum amount of €0.8 million granted to any of the Spanish Subsidiaries.

The termination date of the Facility Agreement is December 31, 2037 and an annual interest at the rate of Euribor 6 months plus a margin of 2% (with a zero interest floor) is repaid semi-annually on June 20 and December 20. The principal is repaid on a semi-annual basis based on a pre-determined sculptured repayment schedule.

The Facility Agreement provides for mandatory prepayment upon the occurrence of certain events and includes various customary representations, warranties and covenants, including covenants to maintain a DSCR on an aggregate basis not lower than 1.05:1, and not to make distributions unless, among other things: (i) the DSCR, on an aggregate basis, is equal to or higher than 1.15:1.0, (ii) the first instalment of the Project Finance has been repaid, (iii) no amount under the revolving credit tranche has been withdrawn and not fully repaid and no drawdowns of the revolving credit tranche are expected within the next six months, and (iv) the Spanish Subsidiaries' net debt to regulatory value (as such terms are defined in the Facility Agreement) ratio is equal to or higher than 0.7:1. The regulatory value of the photovoltaic plants owned by the Spanish Subsidiaries is approximately €23.5 million, compared to their aggregate nominal purchase price, which was approximately €14.85 million and their aggregate book value, which was approximately €14.4 million as of December 31, 2018.

The Facility Agreements includes a cash-sweep payment mechanism and obligation that applies in the event the Spanish Subsidiaries' net debt to regulatory value ratio is equal to or higher than 0.7:1.

The Spanish Subsidiaries entered into the swap agreements on March 12, 2019 with respect to approximately €17.6 million (with a decreasing notional principal amount based on the amortization table) until December 2037, replacing the Euribor 6 month rate with a fixed 6 month rate of approximately 1%, resulting in a fixed annual interest rate of approximately 3%.

The Project Finance documents require that security interests be provided in connection with the following: (i) the Spanish Subsidiaries' shares (held by the Company's wholly-owned subsidiary, Ellomay Luxemburg Holdings S.à.r.l. ("Ellomay Lux"), (ii) pledges over accounts, (iii) pledges over relevant agreements including hedging agreements; and (iv) promissory equipment mortgage.

In addition, we entered into project finance arrangements in connection with several of our Italian PV Plants. For more information see "Item 5.B: Liquidity and Capital Resources – Project Finance."

Competition

Our competitors are mostly other entities that seek land and contractors to construct new power plants on their behalf or seek to purchase existing photovoltaic power plants. The competition in the Israeli photovoltaic sector concentrates on the ability to receive licenses from the Israeli Electricity Authority for the construction of new photovoltaic plants, which is subject to a quota as more fully described below and the ability to acquire existing plants that were already granted an electricity production license. The market for solar energy is intensely competitive and rapidly evolving, and many of our competitors who strive to construct new solar power plants have established more prominent market positions and are more experienced in this field. Our competitors in this market include Etrion Corporation (TSX, TO:ETX), Sunflower Sustainable Investments Ltd. (TASE:SNFL), Enlight Renewable Energy Ltd. (TASE:ENLT), Energix Renewable Energies Ltd. (TASE:ENRG), Allerion Clean Power S.p.A. (ARN.MI), NextEra Energy Partners (NYSE:NEP), NRG Yield (NASDAQ:NYLD), TransAlta Renewables (TSX:RNW), Pattern Energy Group (NASDAQ:PEGI), Abengoa Yield PLC (NASDAQ:ABY), NextEnergy Solar Fund Limited (LSE:NESF), Bluefield Solar Income Fund Limited (LSE:BSIF), Infinis Energy PLC (LSE:INFI), The Renewables Infrastructure Group Limited (LSE:TRIG) and TerraForm Power, Inc. (NASDAQ:TERP). If we fail to attract and retain ongoing relationships with solar plants developers, we will be unable to reach additional agreements for the development and operation of additional solar plants, should we wish to do so.

Customers

The customers of our PV Plants are generally the local operators of the national grid and our PV Plants do not provide electricity or enter into power purchase agreements with private customers. The agreements with the customers include customary termination provisions, including in connection with breaches of the electricity producer and in the event the plant causes disruptions with the grid.

Seasonality

Solar power production has a seasonal cycle due to its dependency on the direct and indirect sunlight and the effect the amount of sunlight has on the output of energy produced. Although we received the technical calculation of the average production recorded in the area of each of our PV Plants from our technical advisors and incorporated such data into our financial models, adverse meteorological conditions can have a material impact on the PV Plants' output and could result in production of electricity below expected output. For example, the radiation levels in Italy during the years ended December 31, 2016 and 2018 were lower than the radiation levels during the same period in 2015 and in 2017, resulting in lower revenues from our Italian PV Plants during the years ended December 31, 2016 and 2018.

Sources and Availability of Components of the Solar Power Plant

As noted above, the construction of our PV Plants entails the assembly of solar panels and inverters purchased from third party suppliers. A critical factor in the success of our PV Plants is the existence of reliable panel suppliers, who guaranty the performance and quality of the panels supplied. Degradation in such performance above a certain minimum level, generally 90% during the initial ten year period and 80% during the following ten-fifteen year period, is guaranteed by the panel suppliers. However, if any supplier is unreliable or becomes insolvent, it may default on warranty obligations.

There are currently sufficient numbers of solar panel manufacturers at sufficient quality and we are not currently dependent on one or more specific suppliers.

In addition, silicon is a dominant component of the solar panels, and although manufacturing abilities have increased over-time, any shortage of silicon, or any other material component necessary for the manufacture of the solar panels, may adversely affect our business.

Material Effects of Government Regulations on the PV Plants

The construction and operation of the PV Plants is subject to complex legislation covering, *inter alia*, building permits, licenses, the governmental long-term incentive scheme and security considerations. The following is a brief summary of the regulations applicable to our PV Plants.

Material Effects of Government Regulations on the Italian PV Plants

The regulatory framework surrounding the Italian PV Plants consists of legislation at the Italian national and local level. Relevant European legislation has been incorporated into Italian legislation, as described below.

National Legislation

(i) Construction Authorizations

Construction of the PV Plants is subject to receipt of appropriate construction authorizations, pursuant to Legislative Decree no. 380 of 2001, or Decree 380, and Legislative Decree 29 December 2003 no. 387, or Decree 387, the latter of which implements European Directive no. 77 of 2001 on the promotion of electricity produced from renewable energy sources in the internal electricity market.

Decree 387 aims to promote renewable energies, *inter alia* by simplifying the procedures required to commence constructions. In particular, it regulates the so-called *Autorizzazione Unica*, or AU, in relation to renewable energy plants. The AU is an authorization issued by the Region in which the construction is to take place, or by other local competent authorities, and which joins together all permits, authorizations and opinions that would otherwise be necessary to begin construction (such as, building licenses, landscape authorizations, permits for the interconnection facilities, etc.). The only authorization not included in the AU is the environmental impact assessment (*valutazione di impatto ambientale*, or VIA, see below), which needs to be obtained before the AU procedure is started. The AU is issued following a procedure called *Conferenza di Servizi* in which all relevant entities and authorities participate. Such procedure is expected to be completed within 180 days of the filing of the relevant application, but such term is not mandatory and cannot entirely be relied upon.

Decree 380, which is the general law on building administrative procedures, provides another track for obtaining the construction permit. Pursuant to this decree, the construction authorization can be obtained through a *permesso di costruire*, or the Building Permit, which is an express authorization granted by the competent municipality. Upon positive outcome of the municipality's review, the Building Permit is granted. Works must start, under penalty of forfeiture of the Building Permit, within one year following the date of issuance, and must be completed within the following three years.

Decree 380 also regulates the so-called *Dichiarazione di inizio attività*, or DIA, procedure. DIA is a self-certification process whereby the applicant declares that the project in question complies with all relevant requirements and conditions. The competent authority can deny the authorization within 30 days of receipt of DIA; should such a denial not be issued within such term - which is mandatory - the authorization shall be deemed granted and the applicant is allowed to start the works. The DIA procedure can be used in relation to plants whose power is lower than 20 kW. Since the expected power output of the PV Plants exceeds 20kW, the DIA is not available for the PV Plants. With the entry into force of the Romani Decree on March 29, 2011, which implemented European applicable directives (in particular, directive no. 28 of 2009), the DIA procedure has been replaced, with respect to plants fed by renewable energy sources, by the so called *procedura abilitativa semplificata*, or PAS, according to which, very similarly to the DIA procedure, an applicant can start construction of a plant after 30 days of the filing of the application with the competent Municipality provided that the latter has in such time not raised objections and/or requested integrations. With respect to photovoltaic plants, under the Romani Decree the PAS applies to plants with a power up to 20 kWp, and regions can increase such threshold up to 1 MWp.

The Italian PV Plants rely on three AUs, three DIAs and six Building Permits.

(ii) *Connection to the National Grid*

The procedures for the connection to the national grid are provided by the Authority for Electric Energy and Gas, or AEEGSI. Currently, the procedure to be followed for the connection is regulated by the AEEGSI Resolution no. 99 of 2008 (*Testo Integrato delle Connessioni Attive*, or TICA) which replaces previous legislation and has subsequently been integrated and partially amended by AEEGSI Resolutions no. 124/2010 and 125/2010. According to TICA, an application for connection must be filed with the competent local grid operator, after which the latter notifies the applicant the estimated time for connection, or STMC. The STMC shall be accepted within 45 days of issuance. However, in order for the authorization to the connection to become definitive, all relevant authorization procedures (such as easements, ministerial *nulla osta*, etc.) must be successfully completed.

There are three alternative modalities to sell electricity:

- by way of sale on the electricity market (Italian Power Exchange IPEX), the so called "Borsa Elettrica";

- through bilateral contracts with wholesale dealers; and
- via the so-called “Dedicated Withdrawal” introduced by AEEGSI Resolution no. 280/07 and subsequent amendments. This is the most common way of selling electricity, as it affords direct and quick negotiations with the national energy handler (GSE), which will in turn deal with energy buyers on the market.

The Incentive Tariff System for Photovoltaic Plants

The Italian government promotes renewable energies by providing certain incentives. In particular, with Ministerial Decree 19.2.2007, or the Second Conto Energia, the production of renewable electric energy from photovoltaic sources has been promoted by granting a fixed FiT for a period of 20 years from connection of PV plants. The FiT is determined with reference to the nominal power of the plant, the characteristics of the plant (plants are divided into non-integrated; partially integrated and architecturally integrated) and the year on which the plant has been connected to the grid. The FiT provided for by the Second Conto Energia are as follows:

Nominal Power kWp	Non-Integrated	Partially Integrated	Arch. Integrated
1 kW ≤ P ≤ 3 kW	0.40 euro/kWh	0.44 euro/kWh	0.49 euro/kWh
3 kW < P ≤ 20 kW	0.38 euro/kWh	0.42 euro/kWh	0.46 euro/kWh
P > 20 kW	0.36 euro/kWh ¹	0.40 euro/kWh	0.44 euro/kWh

¹ With regard to the Italian PV Plants under the Second Conto Energia the tariffs equal to € 0.346/kWh

The figures above refer to plants which started operation within December 31, 2010. For plants which commenced operations between January 1, 2010 and December 31, 2010, the FiT will be reduced by 2% for each calendar year following 2008.

Pursuant to Ministerial Decree dated August 6, 2010, or the Third Conto Energia, a fixed FiT is granted for a period of 20 years from the date on which the plant is connected to the grid in relation to plants that entered into operation from January 1, 2011 through December 31, 2013. The FiT provided for by the Third Conto Energia are as follows:

Nominal Power	A		B		C	
	Plants entered in operation after December 31, 2010 and by April 30, 2011		Plants entered in operation after April 30, 2011 and by August 31, 2011		Plants entered in operation after August 31, 2011 and by December 31, 2011	
	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants
[kW]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]
1 ≤ P ≤ 3	0.402	0.362	0.391	0.347	0.380	0.333
3 < P ≤ 20	0.377	0.339	0.360	0.322	0.342	0.304
20 < P ≤ 200	0.358	0.321	0.341	0.309	0.323	0.285
200 < P ≤ 1000	0.355	0.314	0.335	0.303	0.314	0.266
1000 < P ≤ 5000	0.351	0.313	0.327	0.289 ¹	0.302	0.264
P > 5000	0.333	0.297	0.311	0.275	0.287	0.251

¹ With regard to the Italian PV Plant under the Third Conto Energia the tariff is equal to € 0.289/kWh.

The plants that entered into operation in 2012 and 2013 were granted the tariff referred to in column C above deducted by 6% each year.

The FiT is payable by GSE upon the grant of an incentive agreement between the producer and GSE. Notwithstanding the foregoing, the first payment of the FiT to the producer is made retroactively, 6 months following connection to the national grid.

However, the Romani Decree provides that the Third Conto Energia shall apply only to photovoltaic plants whose grid connection has been achieved by May 31, 2011.

The Romani Decree provides that, starting from its entry into force, ground mounted PV plants installed on agricultural lands, will benefit from incentives, provided that:

- a) The power capacity of the plant is not higher than 1 MW and - in the case of lands owned by the same owner - the PV plants are installed at a distance of at least 2 km; and
- b) The installation of the PV plants does not cover more than 10% of the surface of agricultural land which is available to the applicant.

Such provisions do not apply to ground mounted PV plants installed on agricultural lands provided either that they have been admitted to incentives within the date of entry into force of the Romani Decree, or the authorization for the construction of the PV plant was obtained, or the application there for submitted, by January 1, 2011; and provided that in any case the PV plant commences operations within one year from the date of entry into force of the Romani Decree. However, all PV Plants have already been connected to the national grid and have already been awarded the incentives agreed under the relevant EPC Contract.

As an implementation to the Romani Decree, a new Decree was issued on May 5, 2011, or the Fourth Conto Energia, setting out the new FiT for PV plants that entered into operations after May 31, 2011.

The following tables provide the FiT that applied to PV plants entering into operations from June 1, 2011 until December 31, 2012 on the basis of the Fourth Conto Energia:

	June 2011		July 2011		August 2011	
	PV plants on buildings	Other plants	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants
	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]
1≤P≤3	0.387	0.344	0.379	0.337	0.368	0.327
3<P≤20	0.356	0.319	0.349	0.312	0.339	0.303
20<P≤200	0.338	0.306	0.331	0.300	0.321	0.291
200<P≤1000	0.325	0.291 ¹	0.315	0.276	0.303	0.263
1000<P≤5000	0.314	0.277	0.298	0.264	0.280	0.250
P>5000	0.299	0.264	0.284	0.251	0.269	0.238

¹ With regard to the Italian PV Plant under the Forth Conto Energia the tariff is equal to € 0.291/kWh.

	September 2011		October 2011		November 2011		December 2011	
	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants
	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]
1≤P≤3	0.361	0.316	0.345	0.302	0.320	0.281	0.298	0.261
3<P≤20	0.325	0.289	0.310	0.276	0.288	0.256	0.268	0.238
20<P≤200	0.307	0.271	0.293	0.258	0.272	0.240	0.253	0.224
200<P≤1000	0.298	0.245	0.285	0.233	0.265	0.210	0.246	0.189
1000<P≤5000	0.278	0.243	0.256	0.223	0.233	0.201	0.212	0.181
P>5000	0.264	0.231	0.243	0.212	0.221	0.191	0.199	0.172

	January – June 2012		July – December 2012	
	PV plants on buildings	Other PV plants	PV plants on buildings	Other PV plants
	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]
1<P≤3	0.274	0.240	0.252	0.221
3<P≤20	0.247	0.219	0.227	0.202
20<P≤200	0.233	0.206	0.214	0.189
200<P≤1000	0.224	0.172	0.202	0.155
1000<P≤5000	0.182	0.156	0.164	0.140
P>5000	0.171	0.148	0.154	0.133

The following table provides the FiT and the relevant reduction, which applied to PV plants which entered into operation after December 31, 2012 on the basis of the Fourth Conto Energia.

	PV plants on building		Other PV plants	
	Omni-comprehensive tariff	Auto-consumption premium	Omni-comprehensive tariff	Auto-consumption premium
	[€/kWh]	[€/kWh]	[€/kWh]	[€/kWh]
1<P≤3	0.375	0.230	0.346	0.201
3<P≤20	0.352	0.207	0.329	0.184
20<P≤200	0.299	0.195	0.276	0.172
200<P≤1000	0.281	0.183	0.239	0.141
1000<P≤5000	0.227	0.149	0.205	0.127
P>5000	0.218	0.140	0.199	0.121

In the first quarter of 2012, the Liberalizzazioni Decree was adopted. Article 65 of the Liberalizzazioni Decree, *inter alia*, provides that ground based PV plants located in agricultural areas cannot be granted the FiT provided by the Romani Decree, unless they: (i) obtained the authorization for the construction of the PV plant or filed the application for the authorization by March 25, 2012 (i.e., the date of entry into force of the Decree conversion law), (ii) commenced operations by September 21, 2012 (i.e., 180 days of the date of entry into force of the Decree conversion law), and (iii) complied with the Romani Decree requirements set forth above with respect to the power capacity of the plant, the distance between the PV plants and the percentage coverage of agricultural land of the PV plant. This provision applies the Romani Decree requirements to PV plants that were already authorized or applied for authorization by March 25, 2012 (while other PV plants will not be eligible for incentives). However, Article 65 of the Liberalizzazioni Decree also provides (by way of reference to the Romani Decree) that the incentive be granted to PV plants that do not meet the requirements in preceding item (iii) if they have obtained the authorization for the construction of the PV plant or filed the application for the authorization by January 1, 2011, provided that they commenced operations within 60 days of March 25, 2012. This in particular applies to the Acquafresca and D'Angella Plants, which applied for the authorization prior to January 1, 2011 and already commenced operations.

The Fourth Conto Energia was replaced by the Fifth Conto Energia, which, with some exceptions, applies to photovoltaic plants that commenced operations starting from August 27, 2012. The main provisions introduced by the Fifth Conto Energia are:

- (i) new (generally lower than the Fourth Conto Energia and decreasing every six months) tariffs, comprising both the incentives and the sale of electric energy (so called “omni-comprehensive tariffs”);
- (ii) the provision for “large” photovoltaic plants of a register in which the same must be enrolled in order to qualify for the grant of the incentives;
- (iii) bonuses for photovoltaic plants whose components are manufactured in European Union countries; and
- (iv) bonuses for photovoltaic plants on buildings replacing asbestos roofs.

The Fifth Conto Energia provided that it shall cease to be effective 30 days after the communication by the Italian Energy Authority that a cumulative amount equal to 6.7 billion euros of annual cost for incentives granted to photovoltaic plants has been reached. In June 2013, AEEGSI announced that the overall annual expense cap of €6.7 billion for incentive payments payable to PV had been reached. As a consequence, the Fifth Conto Energia ceased to apply on July 6, 2013, and until new incentive plans will be formulated, Italy will not subsidize any new PV installations, excluding minor exempted projects.

Law 228 of 2012 (so called *Legge di Stabilità 2013*, approved on December 24, 2012) has subsequently provided some time extensions in connection with the benefits of the Fourth Conto Energia incentives. In particular, an extension of the deadline for the commencement of operations to March 31, 2013 has been provided for photovoltaic plants installed on public buildings or on areas owned by the public administration whose authorization has been already obtained as at the date of the law; furthermore, an extension to June 30, 2013 has been provided for photovoltaic plants of the same kind that are subject to the so called *valutazione di impatto ambientale* (environmental screening), and to October 31, 2013 if the relevant authorization has been obtained after March 31, 2013.

Other Renewable Energy Incentives

Legislative Decree no. 79 of 1999 implements the so-called “priority of dispatch” principle to the marketing of renewable energies, which means that the demand for electricity must be first satisfied by renewable energies.

In other words, in light of the increasing demand of energy, the sale of the total output of power plants fueled by renewable sources is required by law, and the government must buy power from solar power plants that wish to sell to it, before it can buy the remainder of its power needs from fossil fuel energy resources.

(i) The so called "Fare 2" Decree

The Ministry of Economic Development issued a draft of decree, or the *Fare 2* Decree, which provided measures aimed at reducing the cost of energy for consumers.

Thereafter, such measures have been incorporated in a law proposal ancillary to the so called "Stability law" (i.e. the budget law to be approved on an annual basis to comply with European Union financial requirements). The abovementioned *Fare 2* Decree has been replaced by another decree named *Destinazione Italia*, which was approved as a Law Decree by the Government and converted into Law n. 9, dated February 21, 2014.

This decree does not differ from the *Fare 2* Decree as to the matters set forth above, and provides, in particular:

- a measure consisting of granting the option to access a new revised incentive plan. This specific provision applies to producers of renewable energy and owners of plants to which the "all-inclusive tariff" (*tariffa omnicomprensiva*) or certain "Green Certificates" (*certificati verdi*) apply and provides an alternative incentive system for production of renewable energy, which can be activated voluntarily on demand of each producer. The latter must choose either to continue maintaining the same incentive regime for the remaining period of duration of the plan, or access a new plan, enforced for the remaining duration of the plan extended by 7 years, but with a correspondent reduction in the nominal amount of the incentive, in a percentage which varies based on, inter alia, the remaining duration of the plan and the type of energy source.
- a replacement, starting from January 1, 2014, of the minimum guaranteed prices currently foreseen under the Italian mandatory purchase regime with the zonal hourly prices set out for each specific area (so called *prezzi zionali orari*, i.e. the average monthly price, correspondent to each hour, as resulting from the electric market price on the area where the PV plant is located). The replacement of minimum guaranteed prices with zonal prices applies to PV plants exceeding 100kWp.

Based on the above mentioned provision, the minimum guaranteed prices for energy produced by renewable energy sources have been abolished and the prices that are awarded to such plants are equal to the hourly zonal prices.

On February 26, 2014, GSE published the following new rules regarding the conditions for access to the minimum prices for photovoltaic plants. Therefore, commencing January 1, 2014, the minimum prices as defined by AEEGSI, are equal to:

- For photovoltaic plants with an installed capacity of up to and including 100 kW – the minimum price, as defined by AEEGSI; and
- For photovoltaic plants with installed capacity higher than 100 kW – the hourly zonal price.

(ii) *Minimum Guaranteed Prices determined by AEEGSI*

AEEGSI opinion n. 483/2013

In parallel with the above-described legislative procedure, on October 31, 2013, AEEGSI (i.e., the Italian authority for electric energy) issued a document whereby it started a consultation process aimed at re-determining the amount of the minimum guaranteed prices from which electric energy produced through renewable sources currently benefit under the mandatory purchase regime.

This document illustrates the current regime of minimum guaranteed prices and identifies possible issues with respect to which other interested entities may set forth their position.

In such document AEEGSI identifies (based on a quantification of standard operational costs) euro 0.0378/Kwh as the price that could be guaranteed to PV plants with nominal power higher than 20kWp, without any progressive diversification (as currently applying in 2013, from euro 0.106/Kwh for the first 3,750 Kwh annual production, through euro 0.0952/Kwh for annual production of electricity up to 25 MWh, and until euro 0.0806/Kwh for annual production of electricity up to 2,000 Mwh) and provided that should such price be lower than the zonal hourly price, the zonal hourly price shall apply.

AEEGSI Resolution n. 618/2013

On December 19, 2013, AEEGSI issued a new resolution, determining the new reduced minimum guaranteed prices applicable as of January 1, 2014, by means of the amendment of AEEGSI Resolution n. 280/2007. However, such resolution has been challenged before the administrative court (TAR Lombardia) by an organization of renewable energy producers (AssoRinnovabili). On July 3, 2015, the administrative court rejected AssoRinnovabili's appeal thus confirming the effectiveness of AEEGSI Resolution n. 618/2013.

(iii) *AAEG resolution 36/E on depreciation of PV Plants*

Resolution n. 36/E dated December 19, 2013, highlighted, that, in case of plants qualified as real estate (which is the case of all of our Italian PV Plants), the depreciation rate for tax purposes will be the same as the depreciation rate for "industry manufacturer" (i.e. 4%).

(iv) *Imbalance costs under AEEGSI Resolution n. 281/2012*

On January 1, 2013 AEEGSI Resolution n. 281/2012 (subsequently also implemented by Resolution n. 343/2012), or the AEEGSI Resolution, entered into force, aiming at charging the PV plant owners with the costs relating to the electric system (so called "imbalance costs") that are the result of an inaccurate forecast of the production of electric energy, particularly in cases in which the owner is party to the mandatory purchase regime with GSE.

Such costs are mainly due to the fact that under the mandatory purchase regime GSE buys electric energy on the basis of a production forecast that may not be fully accurate; such circumstance causes the GSE to bear costs in connection with the re-sale of electric energy on the market; before Resolution n. 281/2012, such costs were borne by final consumers.

In order to transfer such costs to the owners of the PV plants, AEEGSI Resolution n. 281/2012 has mainly provided two types of measures:

- (i) imbalance costs are to be borne by the owners of PV plants, in an amount calculated by multiplying the discrepancy of the production forecast by a fixed parameter;
- (ii) in the case that the owner of the PV plant is party to the GSE mandatory purchase regime, administrative costs borne by GSE in connection with forecast services are to be charged on the owner.

On June 24, 2013, the administrative Court of the Lombardia Region annulled the parts of AEEGSI Resolution 281/2012 relating to the imbalance costs as the AEEGSI Resolution 281/2012 should apply to programmable sources which should have a different treatment than non-programmable renewable energy sources, such as photovoltaic plants.

This judgment was challenged on September 11, 2013 by AEEGSI before the *Consiglio di Stato* (the Italian supreme administrative Court), which, on June 9, 2014, had rejected the appeal thus confirming the decision of the Court of Lombardia and the partial annulment of the AEEGSI Resolution no. 281/2012. Following said judgment, as of January 1, 2015, AEEGSI reviewed the provisions regarding imbalance costs for non-programmable renewable energy sources. In particular, AEEGSI considered it advisable to provide that beneficiaries of the dispatchment (i.e. of the management of the energy transferred into the national grid and its distribution) may choose, for each of the dispatchment points owned, between two different criteria for the determination of imbalancing costs:

1. application of the actual imbalancing (i.e., the difference, hour by hour, between the measurement of the energy delivered/withdrawn into the grid in one day and the final delivery/withdrawal program as a consequence of the closing of the Electrical Markets and the Dispatchment Services Market).

In other words, based on the first option, production units powered by non-programmable renewable energy are subject to the same criteria of determination of imbalancing (*regolazione di valorizzazione degli sbilanciamenti*) applicable to the programmable ones.

2. sum of three components, which are a result of the application:
 - to the actual imbalancing which falls within the tolerated thresholds of the price equal to that provided under section 40.3 of Resolution AEEGSI SI 111/06, as amended by Resolution 522/2014/R/eel; and
 - to the actual imbalancing exceeding the tolerated thresholds of the price equal to that provided under section 30.4(b) of Resolution AEEGSI SI 111/06, as amended by Resolution 522/2014/R/eel.

These two amounts must be calculated pursuant to specific technical formulas.

to the actual imbalancing which falls within the tolerated thresholds, considered as an absolute value, of an imbalancing price equal to the area quota. The area quota must be intended as the ratio between the imbalancing costs which have not been allocated pursuant to the two aforementioned points and the sum of the absolute values of imbalancing costs, which fall within the tolerated thresholds.

This second option, therefore, provides the application of tolerance thresholds to the amended and corrected binding program, which are differentiated by source (in particular, 31% of the program for solar energy), so that all imbalancing costs are allocated among producers of energy through non-programmable sources.

As in the previous regulation, AEEGSI provided that for both production units subject to the *titolo dedicato* regime and those who applied to the fixed *omni-comprehensive tariff*, imbalancing costs and the counter-value deriving from participation in the daily market (*mercato infragiornaliero* or "MI") are transferred from GSE to the same producers pursuant to the provisions defined by GSE under its Technical Rules.

A new resolution (no. 444 of 2016) was adopted by AEEGSI in July 2016 partly amending the previously applying modalities of payment of imbalancing. Such resolution established that, commencing January 2017 (for PV plants with a capacity lower than 10 MWp), the discrepancy between planned and effective energy input/withdrawn shall not exceed 7.5% (+/-). In the case that such threshold is exceeded, the price paid for positive imbalancing will be reduced in such measure as not to allow any profit to the producer in relation to the forecast in question. Prior to this resolution, distortive practices were often used by intentionally providing energy production forecasts materially different from the actual production in order to maximize revenues deriving from positive imbalancing payments. The provisions of resolution 444/2016 aim at incentivizing producers to keep imbalancing within said limits (+/- 7.5%).

(v) *Law 116/2014 on the tariff cuts*

In August 2014, law 116/2014 (so called "*spalma incentivi*"), providing for a decrease in the FiT guaranteed to existing photovoltaic plants with nominal capacity of more than 200 kW, or Law 116/2014, was approved by the Italian Parliament. Pursuant to Law 116/2014, operators of existing photovoltaic plants, such as Ellomay, which received a guaranteed 20-year FiT under current Italian legislation, were required to choose between the following four alternatives:

- (i) a reduction of 8% in the FiT for photovoltaic plants with nominal capacity above 900 kW, a reduction of 7% in the FiT for photovoltaic plants with nominal capacity between 500 kW and 900 kW and a reduction of 6% in the FiT for photovoltaic plants with nominal capacity between 200 kW and 500 kW (i.e., out of the twelve Italian photovoltaic plants owned by us, eight would be subject to a reduction of 8% in the FiT and four would be subject to a reduction of 7% in the FiT);
- (ii) extending the 20-year term of the FiT to 24 years with a reduction in the FiT in a range of 17%-25%, depending on the time remaining on the term of the FiT for the relevant photovoltaic plant, with higher reductions applicable to photovoltaic plants that commenced operations earlier (based on the remaining years in the initial guaranteed FiT period of our existing Italian photovoltaic plants, the expected reduction in the FiT for the our photovoltaic plants would have been approximately 19%);

- (iii) a rescheduling in the FiT so that during an initial period the FiT is reduced and during the second period the FiT is increased in the same amount of the reduction with the goal to guarantee an annual saving of at least €600 million by the Italian public between 2015 and 2019, assuming all photovoltaic operators opt for this alternative); or
- (iv) the beneficiaries of FiT incentive schemes can sell up to 80% of the revenues deriving from the incentives generated by the photovoltaic plant to a selected buyer to be identified among the top EU banks. The selected buyer will become eligible to receive the original FiT and will not be subject to the changes set forth in alternatives (i) through (iii) above.

The photovoltaic plant operators were required to make a choice by November 30, 2014, with effect commencing January 1, 2015. Operators that did not make a choice became automatically subject to the first option.

We chose the first option for our Italian PV Plants. Therefore, effective as of January 1, 2015 the FiT for eight of our Italian PV Plants has been cut by 8% (with respect to Adria I, Adria II, Pedale, Acquafresca, D'Angella, Troia 8, Troia 9, Galatina) and the FiT for our remaining four Italian PV Plants has been cut by 7% (with respect to Giacchè, Massaccesi, Costantini, Del Bianco).

The operators that chose one of the alternatives set forth in (i) - (iii) above can benefit from governmentally subsidized lines of credit or guarantees, for a maximum amount equal to the difference between the incentive due as of December 31, 2014 and the rescheduled incentive under the alternative chosen. The guarantee or line of credit will be made available by Cassa depositi e prestiti, a financing institution controlled by the Italian government, according to criteria that will be determined by a specific decree, as described in detail under paragraph (iii) below.

Implementing decrees

The Ministry of Economic Development, issued several implementing decrees in connection with the new provisions on electrical bills reduction detailed above, approved with Law 116/2014.

(i) The decree on the payment terms by GSE

Article 26, paragraph 2 of Law 116/2014, provides that the incentives will be paid through equal monthly installments in an amount of 90% of the average production of each plant in the relevant solar calendar year. GSE calculates the balance due based on the effective production before June 30th of the previous year. This provision has been implemented by the Italian Ministry of the Economic Development through a decree dated October 16, 2014. Other than the annual advance payment by GSE, equal to 90% of the total annual average production, determined based on the actual energy produced during the previous year and paid within 60 days commencing from the communication of the production data or, in any case, by June 30th of each year, this decree also determines the criteria for the determination of the advance, the verifications that GSE must carry out and the timing of payments, which varies according to the specific type of plant.

(ii) *Decree on option (iii) – rescheduling of the FiT over 20 years*

On October 17, 2014, pursuant to article 26, paragraph 3(b) of Law 116/2014, the Italian Ministry of Economic Development issued a Ministerial Decree implementing the option described under (iii) above under Law 116/2014, based on the rescheduling of the FiT throughout the 20-year initial period.

In particular, the abovementioned Decree provides that, without prejudice for the original 20-year period, for a first period (i.e. from 2015 to 2019) the FiT will be reduced and will then be increased by the same amount of the reduction during the second period. The redetermination of the FiT shall take place in compliance with the criteria set forth in Annex 1 attached to this Ministerial Decree.

None of our Italian PV Plants opted for this option.

(iii) *CDP Decree*

On December 29, 2014, the Italian Ministry of Economic Development published a decree regarding the guarantee/line of credit that the Italian Government will grant Cassa Depositi e Prestiti, or CDP pursuant to art. 26, par. 5 of Law 116/2014. This decree was issued in order to allow the CDP to finance those banks that will be granting energy producers a new financing in order to cover the costs related to the new amended tariffs, regardless of the option chosen by the producer with respect to producers who chose one of the first three options.

In particular, the Italian Government guarantees 80% of the amount (that includes principal and interests) of each guarantee that CDP issues in favor of economically and financially sound banks that provide financing to economically and financially sound producers. A bank/producer is considered “economically and financially sound” pursuant to the definitions set forth by the European Commission.

The Government’s guarantee could be enforced by CDP: (i) within 6 months starting from the expiry of the terms foreseen under the financial agreements, in case of default of the reimbursement; or (ii) within 6 months starting from the payment released by CDP following the enforcement by the guaranteed bank.

The Italian Ministry of Economic Development will pay CDP after an evaluation of the specific case. Following the payment, the Italian Ministry of Economic Development will acquire all rights held by CDP towards the first debtor for the amounts paid.

Constitutional Court Judgment

In June 2015, an appeal was filed with the Italian Constitutional Court aimed to assess whether the *Spalma Incentivi* Law entails unconstitutional provisions, particularly insofar as they apply in a retrospective fashion. In December 2016 the Italian Constitutional Court declared that the *Spalma Incentivi* Law is not unconstitutional.

On May 1, 2015, GSE issued a regulation called “*Documento Tecnico di Riferimento*”, or DTR, setting out the conditions subject to which a PV plant can continue benefitting from incentives despite modifications made to the PV plant due to revamping interventions. The terms of the DTR cover a number of circumstances (such as moving of the plant, modification of the connection point, variation of the installation method, replacement of components, modification of the capacity, etc.). The DTR was criticized for being too restrictive by many operators and relevant associations and in July 2015 the effectiveness of the DTR was suspended by GSE partly due to the fact that relevant measures are addressed in the scheme of new Italian decree dedicated to renewables (*Nuovo Decreto FER*). The new decree was adopted and entered into force in June 2016.

Although *Nuovo Decreto FER* is mostly dedicated to other forms of renewable energy, it provides measures that apply also to photovoltaic plants. Such measures include:

A. Measures on revamping interventions, which provide in particular that in order for a plant to continue benefitting from incentives, such interventions:

- (i) shall not entail an increase of more than 1% (5% for plants up to 20 kWp) of the nominal power of the plant or its single units;
- (ii) shall use new or regenerated components, in the case of definitive replacements; and
- (iii) shall be communicated to GSE within 60 days.

further implementation measures on the procedures to be followed in case of revamping interventions (i.e., a new *Documento Tecnico di Riferimento*) were published in February 2017;

B. Measures on the so called “fake fractioning”, providing in particular that in the case that two or more plants are:

- (i) fed by the same renewable source;
- (ii) owned by the same entity or by entities belonging to the same group; and
- (iii) built on the same plot or on bordering plots;

such plants have to be considered as one plant with nominal power equal to the aggregate of the single plants’ respective powers. In such case, GSE will:

- (i) re-determine the applicable tariff, if the procedures on tariff admission were complied with notwithstanding the fake fractioning; or
- (ii) declare the retrospective forfeiture from the tariff, if the procedures on tariff admission were not complied with as a result of the fake fractioning.

In terms of sanctions by the GSE, the Italian Budget Law for 2018 includes a provision aimed at limiting GSE’s powers (so called ‘*Benamati Amendment*’).

Whereas the current provisions allow GSE to declare retrospective forfeiture from the incentives also for minor or anyway rather formal authorization irregularities, the new legislation provides that GSE shall in such cases only reduce incentive to 20%-80% of the original value, depending on the type of breach. Furthermore, it is provided that if notice of the breach is provided to GSE by the producer (before an assessment procedure commences) the reduction will be further reduced by one third. However, the referred legislation does not eliminate the possibility for declaration of forfeiture of the entire amount of the incentives in the event of most material breaches.

The cases in which the reduction of the incentive can be declared are to be defined by the Ministry of Economic Development within six months.

Retention from Incentives for Panel Disposal

As part of the implementation of legislative decree 49/2014, in December 2015, GSE published the guidelines regarding disposal of PV panels that benefit from incentives. In particular, the decree had established that GSE was entitled to retain a certain amount from payment of incentives as a guarantee for the cost of disposal of the panels installed on PV plants and GSE set out the determination of such retention.

The guidelines provide that the retention shall start from the 1st year of incentive and shall be calculated, for plants with nominal capacity higher than 10 kWp, on the basis of the following formula:

$$[2 * (n - i + 1) / n * (n + 1)] * total\ quota$$

where “n” is equal to 10, “i” is the year in which the retention is applied, and “total quota” is n*number of panels (GSE has however reserved to amend the value of “n” after further assessment of disposal costs).

For example, for a plant with 100 panels, based on the above formula the retention is equal to €181.82 for the first year and an aggregate amount of €1,000 for a ten-year period (assuming a duration of the incentive of 20 years).

The retention will be held by GSE in an interest-bearing escrow account and is to be returned to producers after evidence is provided to GSE that the panels have been disposed correctly. If such evidence is not provided, GSE will proceed by itself to the disposal of the panels and not return the retention to the producer.

The guidelines clarify that the retention shall apply also in the case that the incentive-related receivables have been the object of assignment (as is applicable to our financed projects).

Fourth and Fifth Conto Energia PV plants (except for certain specific type of plants) are exempt from the retention provided that the relevant panel producers are enrolled with consortia/institutions listed in an ad hoc register held by GSE.

New provisions regarding determination of cadastral value and so called “super-depreciation”

Art. 21 of Law 208/2015 (2016 Italian Budget Law) set out new criteria concerning the determination of the cadastral value of immovable assets with so called special and particular destination (i.e., those belonging to cadastral categories “D” and “E”). PV plants fall within the scope of such provision. Following issuance of the law, on February 1, 2016, the Italian Tax Office (*Agenzia delle Entrate*) published official clarifications to the scope of said provision. With specific reference to ground PV plants, the Italian Tax Office pointed out that, on the basis of the new provision, modules and inverters shall not be accounted in the determination of the associated cadastral value, which should entail a significant reduction in the calculation of the related tax burden.

With circular dated March 30, 2017, the Italian Tax Office has further clarified that PV plants can be characterized as movable assets and particularly, as a result, will be subject to the so called “super-depreciation”, which allows them to increase the actual cost of the investment in PV plants by 40%, with associated significant fiscal benefits.

Approval of Capacity Market by EU Commission

At the beginning of February 2018, the EU Commission approved the scheme presented by the Italian government for the setting up of the so-called “capacity market”. This has been approved for a period of 10 years and will allow producers of electric energy (including from PV sources) to participate in auctions whereby they will obtain additional remuneration for providing availability to produce electric energy. The capacity market is still to be implemented through an ad hoc decree by the Italian government, and is currently under discussions with EU institutions.

Material Effects of Government Regulations on the Spanish PV Plants

The Spanish general legal framework applicable to renewable energies

Law 24/2013, of December 27, 2013, of the Power Sector

The Spanish general legal framework applicable to renewable energies is contained in Law 24/2013, of December 27, 2013, of the Power Sector, or Law 24/2013, which sets forth the regulatory framework of the power sector with the objective of guaranteeing the electricity supply with an adequate level of quality, at the least possible cost, while ensuring the economic and financial sustainability of the system and pursuing effective competition in the power sector. At the same time, the principle of environmental sustainability is considered.

The economic and financial sustainability is the guiding principle for both the Spanish Public Administration and the agents acting under the scope of Law 24/2013, with a view to avoid the accumulation of new tariff deficits. According to Law 24/2013, incomes must be enough to cover expenses and, on the other hand, tariffs and charges must be automatically reviewed in case of overcoming certain established thresholds.

In accordance with Royal Decree-law 9/2013, dated July 12, 2013, which adopts several urgent measures in order to ensure the financial stability of the power system, or RDL 9/3013, Law 24/2013 regulates the new remuneration scheme of those renewable energy installations entitled to a regulated income, or the so called “Specific Remuneration,” in addition to the market price. Law 24/2013 sets forth the principle of reasonable profit for the sake of which the parameters to determine the regulated income are reviewed every six years.

In addition, Law 24/2013 establishes the priority access and dispatching of RES and high efficiency Combined Heat and Power in line with the European Union Directives, and further develops the general criteria for access and dispatching by reinforcing the principles of objectivity and non-discrimination. Thereby, the reasons to refuse access are based on technical criteria exclusively.

Moreover, Law 24/2013 develops a specific regulatory framework for self-consumption. Law 24/2013 defines three different categories of self-consumption and obliges those installations connected to the grid to contribute to the costs and services of the system in the same conditions of the rest of customers. It also defines the activity of “recharging managers” (for electric vehicles).

New legislation applicable to renewable energies

The Spanish general legal framework applicable to renewable energies includes Royal Decree Law 15/2018, of October 5, 2018, or RDL 15/2018, of urgent measures for energy transition and consumer protection. RDL 15/2018 includes, among others, the following:

1. It introduces three principles in the activity of self-consumption: (i) the right to self-consume electricity without charges; (ii) the right to shared self-consumption by one or more consumers to take advantage of economies of scale; and (iii) administrative and technical simplification.
2. Any consumer – whether or not a direct consumer of the market – may acquire energy through bilateral contracting with a producer.
3. Regarding access and connection permits: (i) the validity of the access and connection permissions granted prior to the entry into force of Law 24/2013 is extended and the aforementioned permits will expire if they have not obtained the authorization of exploitation, on the later of: (a) before March 31, 2020, or (b) five years from the obtaining of the right of access and connection; (ii) the guarantees to be placed for the access and connection permits are increased from €10/kW to €40/kW; (iii) with regards to the actions carried out in the transport or distribution networks by the owners of the access and connection permits which must be developed by the grid operator or distributor, the promoter must advance 10% of the total investment value to be undertaken within a period not exceeding 12 months. Once the aforementioned amount has been paid and the administrative authorization for the generation facility has been obtained, its holder shall, within four months, enter into an Assignment Contract with the transportation grid operator or distributor, otherwise, the validity of the access and connection permits will expire.
4. RDL 15/2018 suspends for 6 months (the last 3 months of 2018 and the 3 first months of 2019) the tax on the value of electricity production.

The remuneration of electricity generation activity includes the following concepts: (i) the electric energy negotiated through the daily and intraday markets, remunerated on the basis of the price resulting from the balance between the supply and the demand of electric energy offered in them (i.e., spot price), (ii) adjustment services, including non-frequency services and system balance services, necessary to ensure adequate supply to the consumer, (iii) where appropriate, the remuneration for capacity mechanism, (iv) where appropriate, the additional remuneration for the production of electric energy in the electrical systems of non-peninsular territories, which the government may apply to cover the difference between the investment and operational costs and the incomes of these facilities, and (v) where appropriate, the specific remuneration for the production of electric energy from renewable energy sources, high efficiency cogeneration and waste.

The legal and regulatory framework applicable to the production of electricity from renewable energy sources in Spain was modified by RDL 9/2013, due to the adoption of several urgent measures in order to ensure the financial stability of the power system, eliminating the former “Special Regime” and feed-in-tariff established by Royal Decree 661/2007 and Royal Decree 1578/2008 and establishing the basis of the current remuneration scheme applicable to renewable energies called the “Specific Remuneration” regime.

Specific Remuneration includes two components to be paid in addition to the electricity market price: (i) an **investment retribution** sufficient to cover the investment costs of a so-called “standard facility” – provided that such costs are not fully recoverable through the sale of energy in the market, and (ii) an **operational retribution** sufficient to cover the difference, if any, between the operational income and costs of a standard plant that participates in the market.

The Specific Remuneration provides that commencing July 13, 2013 all PV plants currently in operation, including our Spanish PV Plants, were no longer entitled to receive the applicable feed-in-tariff for renewable installations but rather became entitled to receive the Specific Remuneration.

The basic concept of the Specific Remuneration contained in RDL 9/2013 was confirmed by the current Power Act (Law 24/2013) and further developed by the following regulations:

1. Royal Decree 413/2014 which regulates electricity generation activity using renewable energy sources, cogeneration and waste, or RD 413/2014.
2. Order IET/1045/2014 approving the retribution parameters for certain types of generation facilities of electricity from renewable energy sources, cogeneration and waste facilities, or Order 1045/2014.
3. Order ETU/130/2017 updating the retribution parameters for certain types of generation facilities of electricity from renewable energy sources, cogeneration and waste facilities, for the purposes of their application to the Regulatory Semi-period beginning on January 1, 2017 and ending on December 31, 2019, or Order 130/2017.

Pursuant to RD 413/2014, Order 1045/2014 and Order 130/2017, the calculation of the Specific Remuneration is performed as follows:

- a) The Specific Remuneration is calculated by reference to a “*standard facility*” during its “*useful regulatory life*”. Order 1045/2014 characterized the existing renewable installations into different categories (referred to as IT-category). These categories were created taking into account the type of technology, the date of the operating license and the geographical location of renewable installations.

The Specific Remuneration is not calculated independently for each power installation. It is calculated based on the inclusion of each existing installations in one of the formulated IT-categories and, as a result of such inclusion, is based on the retribution parameters assigned to that particular IT-category.

- b) According to RD 413/2014, the calculation of the Specific Remuneration of each IT-category shall be performed taking into account the following parameters:
- (i) the standard revenues for the sale of energy production, valued at the production market prices (currently set at €42.84/MWh, €41.54/MWh and €41.87/MWh for 2017, 2018 and 2019, respectively);
 - (ii) the standard exploitation costs; and
 - (iii) the standard value of the initial investment. For this calculation, only those costs and investments that correspond exclusively to the electricity production activity will be taken into account. Furthermore, costs or investments determined by administrative rules or acts that do not apply throughout Spanish territory will not be taken into account.
- c) Order 1045/2014 established the relevant parameters applicable to each IT-category. Therefore, in order to ascertain the total amount of the Specific Remuneration applicable to a particular installation it is necessary to (i) identify the applicable IT-category and (ii) integrate in the Specific Remuneration formula set forth in RD 413/2014 the economic parameters established by Order 1045/2014 for the relevant IT-category and updated by Order 130/2017.
- d) The Specific Remuneration is calculated for regulatory periods of six years, each divided into two regulatory semi-periods of three years. The first Regulatory Period commenced July 14, 2013 and terminates December 31, 2019. The second Regulatory Semi-period commenced January 1, 2017 and terminates December 31, 2019.
- e) The Specific Remuneration is designed to ensure a “reasonable rate of return” or profitability that during the first regulatory period (i.e., until December 2019) shall be equivalent to a Spanish 10-year sovereign bond calculated as the average of stock price in the stock markets during the months of April, May and June 2013, increased by 300 basis points (7.398% for plants prior to RDL 9/2013).
- f) Pursuant to RD 413/2014, the revenues from the Specific Remuneration are set based on the number of operating hours reached by the installation in a given year and adjusted to electricity market price deviations. Furthermore, the economic parameters of the Specific Remuneration might be reviewed by the Spanish government at the end of a regulatory period or semi-period, however the standard value of the initial investment and the useful regulatory life will remain unchanged for the entire Regulatory Useful Life of the installation, as determined by Order 1045/2014.

The update of the Specific Remuneration is carried out by reference to the IT-categories with the sole exception of the adjustment of annual revenues from the Specific Remuneration as a result of the number of Equivalent Operating Hours. This update is made installation by installation by the National Markets and Competition Commission.

The power plant promoted by Talasol in connection with the Talasol Project is expected to be a “merchant” facility, i.e., will not be entitled to feed-in-tariff, “specific remuneration” or other similar regulatory incentives.

The obligation to finance the tariff deficit

Pursuant to Law 24/2013, renewable installations are required to finance future tariff deficits whereas pursuant to the former Power Act, the tariff deficit was only financed by five vertically integrated companies (Iberdrola, Endesa, E.On, Gas Natural Fenosa and Hidroantábrico). Therefore, in the event there is a temporary deviation between revenues and costs of the electricity system on any given monthly settlement, this deviation shall be borne by all the companies participating in the settlement system (including renewable facilities).

Taxation of the income from generation of electricity

The Spanish Parliament enacted the Law 15/2012, dated December 27, 2012, or Law 15/2012, on fiscal measures for the sustainability of the energy sector, which entered into force on January 1, 2013. Law 15/2012 sets forth a tax on energy generation of 7% from the total amount received for the production of electricity. However RDL 15/2018 eliminates this tax with respect to the electricity produced and injected to the grid during a period of six months commencing October 6, 2018 (i.e., for the last quarter of 2018 and the first quarter of 2019). To achieve this, instead of setting a zero percent tax for the period, the calculation of the taxable base is temporarily modified.

Material Effects of Government Regulations on the Israeli PV Plant

The Israeli Electricity Market

The Israeli electricity market is dominated by the Israel Electric Corporation (IEC), which manufactures and sells most of the electricity consumed in Israel and by the Palestinian Authority and had an installed capacity of approximately 13.6 GW as of 2017. According to the Israeli Electricity Authority’s report on the electricity sector, published in June 2018, in 2017 the installed capacity of the IEC represented 79% of the total installed capacity in the Israeli market, the actual electricity production of the IEC represented 72% of the actual electricity production in the Israeli market and the IEC’s market share in the supply segment represented 80% of the supply segment of the Israel market, with the remainder represented by the independent power producers, or IPPs. The IEC controls both the transmission network (for long-distance transmittal of electricity) and the distribution network (for transmittal of electricity to the end users). In recent years, various private manufacturers received energy production licenses from the Israeli Electricity Authority. During 2015, Israel’s largest private power plant, Dalia Power Energies Ltd., was commissioned with installed capacity of approximately 900 MW.

Commencing January 2016, the Israeli Electricity Authority ceased being an independent authority and was merged into the Ministry of Energy pursuant to a government resolution approved in August 2016, which also noted that the Ministry of Energy will be responsible for determining the electricity market policy and for approving electricity manufacturing licenses.

Israeli Regulation

The regulatory framework applicable to the production of electricity by the private sector in Israel is provided under the Israeli Electricity Sector Law, 1996, or the Electricity Law, and the regulations promulgated thereunder, including the Electricity Market Regulations (Terms and procedures for the granting of a license and the duties of the Licensee), 1997, the Electricity Market Principles (Transactions with the supplier of an essential service), 2000, and the Electricity Market Regulations (Conventional Private Electricity Manufacturer), 2005, or the Electricity Market Regulations. In addition, standards, guidelines and other instructions published by the Israeli Electricity Authority (established pursuant to Section 21 of the Electricity Law) and/or by the Israeli Electric Company also apply to the production of electricity by the private sector in Israel. The operations of photovoltaic plants in Israel are also subject to various licensing, permitting and other regulations and requirements, issued and supervised by the relevant municipality, the Israeli Land Authority and various governmental entities including the Ministry of Energy, the Ministry of Agriculture, the Ministry of Interior and the Ministry of Defense.

In June 2018, the Israeli Government issued resolution no. 3859 for the reform of the electricity market and a structural change in the IEC. In July 2018, Amendment No. 16 to the Electricity Law was adopted. This amendment implements the reform of the Israeli electricity market and the reduction of the IEC's monopolistic power by providing arrangements for the removal of the system management authorities from the IEC, maintaining the transmission and part of the distribution facilities with the IEC, increasing the competition in the production segment by forcing the IEC to sell some of the power plants it owns and opening up the supply segment to competition.

Renewable Energy in Israel

On August 6, 1998, the Israeli government approved the resolution of the Committee of Ministers for Environment and Hazardous Materials "to act to advance the development of technologies for efficient use of renewable energies in order to reduce the dependency on imported fuel and reduce the contamination of the environment." Commencing in 2009, the Israeli government adopted a number of decisions intended to achieve the integration of renewable energies into the local electricity market, including the adoption of a roadmap for the market in July 2011 and setting targets for renewable energy manufacturing.

The current targets for manufacturing electricity from renewable sources were set by the Israeli government in September 2015, as follows: 10% in 2020, 13% in 2025 and 17% in 2030. The previous target of 5% renewable energy manufacturing by 2014 was not met as only 1.5% of the electricity manufactured in Israel in 2014 was based on renewable energy. In addition, only 3% of the electricity manufactured in Israel in 2017 was based on renewable energy. These targets were set as part of the Israeli government's efforts to reduce greenhouse gas emissions in Israel.

In August 2017, Amendment no. 14 to the Electricity Sector Law, or Amendment no. 14, was published. Amendment no. 14 is in effect until December 31, 2030. Amendment no. 14 requires that the Minister of Energy formulate a perennial work plan in connection with production of electricity from renewable energy, which will include action items per year in order to meet the targets for renewable energy manufacturing determined by the Israeli government. Amendment no. 14 further provides that an inter-ministerial committee will be established, which will be required to submit its recommendations to the Minister of Energy regarding the advancement of electricity manufacturing from renewable energy, including recommendation with respect to: (i) methods for minimizing or eliminating obstructions for manufacturing of electricity from renewable energy, including in connection with planning and financing and (ii) methods for minimizing or eliminating obstructions for the construction of facilities for manufacturing electricity from renewable energy. Amendment no. 14 also requires the general manager of the Ministry of Energy to provide an annual report to the Economic Committee of the Israeli parliament on meeting the targets for manufacturing electricity from renewable energy and with respect to the implementation of Amendment no. 14 and the perennial work plan.

In May 2018, the Israeli Electricity Authority published its plan for meeting the renewable energy targets determined by the Israeli government. The plan for reaching the 10% target in 2020 is based mainly on photovoltaic installations on rooftops and water reservoirs, the plan for reaching the 17% target in 2030 is currently based mainly on larger land mounted installations, and requires constructing approximately 400MW of new installations every year during the period 2020-2030.

Photovoltaic Plants

The Israeli Electricity Authority determines the quotas for various traditional and renewable energy manufacturers in Israel. In the past, the Israeli Electricity Authority determined quotas for photovoltaic installations. The previous quota of 300 MWp for medium installations, connected to the distribution grid, and 200 MWp for large installations, connected to the transmission grid, have been fully utilized.

Israeli government resolution no. 2117, approved in October 2014, provides for a shift of thermo-solar, wind and bio-gas quotas in aggregate of 340 megawatt to solar quotas to be equally divided between plants connected to the transmission network and plants connected to the distribution network and further providing that the total quotas will not exceed 114 megawatt per year.

On October 10, 2016, The Israeli Electricity Authority published a hearing concerning the development of new photovoltaic plants with a total capacity ranging between 800-1700 megawatts as will be determined by the Israeli Electricity Authority, or the Publication. According to the Publication, the licenses to construct new photovoltaic plants under the new quotas shall be granted on the basis of a competitive bidding process, in which the bidders shall propose the applicable tariffs they expect to be paid for each KW/h supplied to the electric grid. The Publication provides that bidders who submit the lowest proposals that collectively fall within the quota limits will be entitled to develop a photovoltaic plant and sell electricity to the grid at a price equal to the lowest tariff proposal amongst the unsuccessful bids. Consequently, all successful bidders shall eventually sell electricity at the same tariff.

The final tariff will be valid for a period of 23 years for plants connected to the distribution grid, and 22 years for plants connected to the transmission grid, starting from the date of commercial operation or upon receiving a permanent license to produce electricity and the commencement of commercial operation, as shall be determined in accordance with the then applicable licensing regulation.

In November 2017, the Minister approved an additional quota of 1,600 MWp for photovoltaic installations that will be allocated between small rooftop installations and medium installations.

During 2017, two tenders were conducted (out of six tenders planned to be conducted by mid-2019). The tenders resulted in a price per KWh of NIS 0.199 and NIS 0.1978 for an aggregate production capacity of 235 MWp and 105 MWp, respectively. In November 2018 the third tender was published, and based on the publications of the Israeli Electricity Authority all offers in the tender were below the prices fixed in the previous tenders and offers were made for an aggregate of more than 730 MWp. The information concerning the winning offers has not been published yet.

In addition, the Israeli Electricity Authority approved a quota of 200 MWp for tenders to be published in conjunction with the Israel Land Authority for the construction of photovoltaic installations, of which winners were announced in connection with 136 MWp.

As of the end of fiscal 2018, the aggregate installed photovoltaic capacity in Israel was approximately 1,450 MW (an increase of over 40% compared to the end of fiscal 2017), manufacturing approximately 4% of the annual electricity consumption in Israel.

Licensing

The Israeli Electricity Authority regulated the establishment of photovoltaic plants, in several categories as noted above. Medium photovoltaic plants, such as the Israeli PV Plant, are governed by the Israeli Electricity Authority's decision no. 284, or Decision 284. Decision 284 provides that it will apply until the earlier of reaching a quota of 300 megawatt in Israel or until the end of 2017.

An entity wishing to construct and operate a photovoltaic plant in Israel is required to obtain a conditional license, subject to the fulfillment of several threshold conditions set forth in Decision 284. A conditional license is generally valid for 42 months and the licensee, after meeting the milestones included in the conditional license, may be granted a conditional tariff approval based on the prevailing tariff, which is valid until the earlier of: (i) 90 days following its issuance and (ii) receipt of financing for the construction of the photovoltaic plant. In the event the licensee obtains financing during the 90 day period, it is issued the conditional tariff becomes permanent and is linked to the Israeli Consumer Price Index for a period of 20 years commencing upon commercial operation of the plant. Thereafter, subject to fulfillment of certain conditions, a permanent production license is granted.

National Outline Plan and Permits

In December 2010, the Israeli National Committee for Planning and Construction approved National Outline Plan 10/d/10, or the Outline Plan, for regulating photovoltaic plants from small rooftop mounted installations through photovoltaic plants on land plots up to a size of 0.29 square miles. The Outline Plan provides for the construction of photovoltaic plants in two routes: permit and plan. Permits are available for rooftop mounted installations and for land installations on specific lands, depending on their designation in the National Outline Plan and a plan route requires the licensee to file a plan with the relevant planning authority and such a plan cannot be filed with respect to certain lands that are designated as forests, national parks or reservations. The Outline Plan provides that preference will be given to the construction of photovoltaic plants in areas designated for construction and development. The Outline Plan permits planning authorities to approve the construction of photovoltaic plants in certain areas in northern and southern Israel in larger scopes than other areas.

Any acquisition, transfer or sale of rights in a photovoltaic plant that received a production license from the Israeli Electricity Authority requires amending the license and the approval of the Israeli Electricity Authority and the Minister. Therefore, in the event we execute an agreement to acquire the Israeli PV Plant, such acquisition, among other things, will be conditioned upon receipt of these approvals and the amendment of the license.

Dori Energy and the Dorad Power Plant

General

Dori Energy is an Israeli private company in which we currently hold 50%. The remaining 50% is currently held by the Luzon Group (*f/k/a* the Dori Group). The Luzon Group is an Israeli publically traded company, whose shares are traded on the Tel Aviv Stock Exchange. During early 2016, the controlling shareholder of the Luzon Group sold its holdings in the Luzon Group to a new controlling shareholder, who nominated new board members and senior management in the Luzon Group. Dori Energy's main asset is its holdings of 18.75% of Dorad.

Dori Energy

On November 25, 2010, Ellomay Clean Energy Ltd., or Ellomay Energy, our wholly-owned subsidiary, entered into an Investment Agreement, or the Dori Investment Agreement, with the Dori Group and Dori Energy, with respect to an investment by Ellomay Energy in Dori Energy. Pursuant to the terms of the Dori Investment Agreement, Ellomay Energy invested a total amount of NIS 50 million (approximately €10 million) in Dori Energy, and received a 40% stake in Dori Energy's share capital. The transaction contemplated by the Dori Investment Agreement, or the Dori Investment, was consummated in January 2011, or the Dori Closing Date. Following the Dori Closing Date, the holdings of Ellomay Energy in Dori Energy were transferred to Ellomay Clean Energy Limited Partnership, or Ellomay Energy LP, an Israeli limited partnership whose general partner is Ellomay Energy and whose sole limited partner is us. Ellomay Energy LP replaced Ellomay Energy with respect to the Dori Investment Agreement and the Dori SHA.

Ellomay Energy was also granted an option to acquire additional shares of Dori Energy, or the Dori Option, which, if exercised, will increase Ellomay Energy's percentage holding in Dori Energy to 49% and, subject to the obtainment of certain regulatory approvals – to 50%. The exercise price of the options is NIS 2.4 million for each 1% of Dori Energy's issued and outstanding share capital (on a fully diluted basis). In May 2015, we exercised the first option and in May 2016, we exercised the second option, accordingly, we currently hold 50% of Dori Energy and our indirect ownership of Dorad is 9.375%. The aggregate amount paid in connection with the exercise of this option amounted to approximately NIS 2.8 million (approximately €0.7 million), including approximately NIS 0.4 million (approximately €0.1 million) required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure.

Concurrently with the execution of the Dori Investment Agreement, Ellomay Energy, Dori Energy and Dori Group also entered into the Dori SHA that became effective upon the Dori Closing Date. The Dori SHA provides that each of Dori Group and Ellomay Energy is entitled to nominate two directors (out of a total of four directors) in Dori Energy. The Dori SHA also grants each of Dori Group and Ellomay Energy with equal rights to nominate directors in Dorad, provided that in the event Dori Energy is entitled to nominate only one director in Dorad, such director shall be nominated by Ellomay Energy for so long as Ellomay Energy holds at least 30% of Dori Energy. The Dori SHA further includes customary provisions with respect to restrictions on transfer of shares, a reciprocal right of first refusal, tag along, principles for the implementation of a BMBY separation mechanism, special majority rights, etc.

Dori Energy's representative on Dorad's board of directors is currently Mr. Hemi Raphael, who is also a member of our Board of Directors.

The Dorad Power Plant

Other than information relating to Dori Energy, the disclosures contained herein concerning the Dorad Power Plant are based on information received from Dorad and other publicly available information.

Dorad currently operates the Dorad Power Plant, a combined cycle power plant based on natural gas, with a production capacity of approximately 850 MW, located south of Ashkelon. The Dorad Power Plant was constructed as a turnkey project, with the consideration denominated in US dollars, and commenced commercial operations in May 2014. Dorad executed a lease with respect to the land on which the Dorad Power Plant is located with the Eilat-Ashkelon Pipeline Company (EAPC) for the construction period and for a period of 24 years and 11 months following the commencement of commercial operations of the Dorad Power Plant.

The electricity produced by the Dorad Power Plant is sold to end-users throughout Israel and to the Israeli National Electrical Grid. The transmission of electricity to the end-users is done via the existing transmission and distribution grid, in accordance with the provisions of the Electricity Sector Law and its Regulations, and the Standards and the tariffs determined by the Israeli Electricity Authority. The existing transmission and delivery lines are operated by the IEC, which is the only entity that holds a license to operate an electricity system in Israel. The Dorad Power Plant is based on combined cycle technology using natural gas. The combined cycle configuration is a modern technology to produce electricity, where gas turbines serve as the prime mover. After combustion in the gas turbine to produce electricity, the hot gases from the gas turbine exhaust are directed through an additional heat exchanger to produce steam. The steam powers a steam turbine connected to a generator, which produces additional electric energy. The Dorad Power Plant is comprised of twelve natural gas turbines, each with an installed capacity of 50 MWp and two steam turbines, each with an installed capacity of 100 MWp. These turbines can be turned on and off quickly, with no material losses in energy efficiency, which provides operational flexibility in accordance with the expected needs of customers and the IEC, calculated based on a proprietary forecasting system implemented by Dorad.

The other shareholders in Dorad are Eilat Ashkelon Infrastructure Services Ltd., or EAIS, (37.5%), and Edelcom Ltd., or Edelcom, (18.75%), both Israeli private companies, and Zorlu Enerji Elektrik Uretim A.S., or Zorlu, (25%), a publicly traded Turkish company. Dorad's shareholders, including Dori Energy, are parties to a shareholders agreement that includes customary provisions, including a right of first refusal, arrangements in connection with the financing of Dorad's operations, certain special shareholder majority requirements and the right of each shareholder holding 10% of Dorad's shares to nominate one member to Dorad's board of directors. As noted above, pursuant to the Dori SHA, we are currently entitled to recommend the nomination of the Dorad board member on behalf of Dori Energy.

During July 2016, Dorad repaid an aggregate amount of approximately NIS 350 million (approximately €82 million) of shareholders' loans (of which approximately NIS 204 million (approximately €46 million) for repayment of interest and linkage and the remainder of approximately NIS 146 million (approximately €34 million) for partial repayment of principal). Dori Energy's portion of such repayment was approximately NIS 66 million (approximately €15.5 million). During 2017 and 2018, Dorad repaid an additional aggregate amount of approximately NIS 50 million (approximately €12.3 million) and NIS 190 million (approximately €44 million), respectively, of interest and principal on account of shareholders loans. For information concerning Dori Energy's portion of these repayments, see below.

Dorad entered into a credit facility agreement with a consortium led by Bank Hapoalim Ltd., or the Dorad Credit Facility, and financial closing of the Dorad Power Plant was reached in November 2010, with the first drawdown received in January 2011. The Dorad Credit Facility provides that the consortium will fund up to 80% of the cost of the project, with the remainder to be funded by Dorad's shareholders. The funding is linked to the Israeli consumer price index and bears interest at a rate that is subject to updates every three years based on Dorad's credit rating (Dorad received an "investment grade" rating, on a local scale). The current interest rate is approximately 5.1%. The funding is repaid (interest and principal) in semi-annual payments, commencing six months of the commencement of operations of the Dorad Power Plant and for a period of 17 years thereafter. The Dorad Credit Facility further includes customary provisions, including early repayment under certain circumstances, fixed charges on Dorad's assets and rights in connection with the Dorad Power Plant and certain financial ratios, which Dorad is in compliance with as of December 31, 2018. Dorad's senior loan facility is linked to the Israeli CPI. As the production tariff is partially linked to the Israeli CPI, the exposure is minimized. However, as the production tariff is published in delay with respect to the actual changes in the CPI, Dorad executed derivative transactions on the Israeli CPI. In connection with the Dorad Credit Facility, Dorad's shareholders (including Dori Energy) undertook to provide guarantees to certain customers, to the IEC and to various suppliers and service providers of Dorad and also undertook to indemnify Dorad and the consortium in connection with certain expenses, including payments to customers due to delays in the commencement of operations, payment of liquidated damages to the construction contractors in the event of force majeure and certain environmental hazards. The aggregate investment of Dorad in the construction of the Dorad Power Plant was approximately NIS 4.7 billion (equivalent to approximately €1.1 billion). The Dorad Credit Facility provides for the establishment of the project's accounts and determines the distribution of the cash flows among the accounts. In addition, the Dorad Credit Facility includes terms and procedures for executing deposits and withdrawals from each account and determines the minimum balances in each of the capital reserves.

As of December 31, 2018, Dori Energy provided guarantees to the Israeli Electricity Authority, to the IEC and to Israel Natural Gas Lines Ltd. in the aggregate amount of approximately NIS 32.4 million (approximately €7.6 million). As of December 31, 2018, the principal and accrued interest on the shareholders loans provided to Dorad by Dori Energy was in the aggregate amount of approximately NIS 3.6 million (approximately €0.8 million). The shareholders loans bear 10% interest and are linked to the Israeli CPI.

In July 2013, the Dorad Power Plant was energized and connected to the Israeli national grid. In November 2013, the Natural Gas Authority of the Israeli Ministry of National Infrastructures, Energy and Water Resources approved the connection of the Dorad Power Plant to the national gas pipeline network. The commencement of operations of the Dorad Power Plant was postponed due to technical delays, including a temporary disruption of the works during 2012 due to missile attacks directed at Southern and Central Israel.

The Dorad Power Plant commenced operations in May 2014, following the receipt of the permanent production and supply licenses discussed under “Material Effects of Government Regulations on Dorad’s Operations” below.

Dorad previously entered into an operation and maintenance agreement with Eilat-Ashkelon Power Plant Services Ltd., or EAPPS, a wholly-owned subsidiary of Eilat Ashkelon Infrastructure Services Ltd., which holds 37.5% of Dorad. Certain of the obligations under such agreement were assigned to Zorlu, which holds 25% of Dorad. During 2013, EAPPS entered into an agreement with Ezom Ltd., or Ezom, which, to our knowledge, is 75% owned by the controlling shareholder of Edelcom (which holds 18.75% of Dorad) with the remainder held by a company controlled by Zorlu, for the provision of sub-contracting services to EAPPS. Despite the assignment and subcontracting agreement, EAPPS remained liable to Dorad for all obligations under the agreement. In December 2017, Dorad and Ezom executed an operation and maintenance agreement for the Dorad Power Plant, or the Dorad O&M Agreement, replacing EAPPS by Ezom as the O&M contractor of the Dorad Power Plant under the same terms. The Dorad O&M Agreement is for a period of 24 years and 11 months commencing upon receipt of a permanent license by Dorad, and in no event for a period that is longer than the period of the lease of the Dorad Power Plant premises.

Due to the location of the Dorad Power Plant, Dorad has implemented various security measures in order to enable continued operations of the Dorad Power Plant during attacks on its premises.

We and Dori Energy, and several of the other shareholders of Dorad and their representatives, are involved in various litigations as follows:

Petition to Approve a Derivative Claim filed by Dori Energy and Hemi Raphael

During April 2015, Dori Energy approached Dorad in writing, requesting that Dorad take legal steps to demand that Zorlu, Wood Group Gas Turbines Ltd., the engineering, procurement & construction contractor of the Dorad Power Plant, or Wood Group, and the representatives of Zorlu on the Dorad board of directors disclose details concerning the contractual relationship between Zorlu and Wood Group. In its letters, Dori Energy notes that if Dorad will not act as requested, Dori Energy intends to file a derivative suit in the matter.

Following this demand, in July 2015, Dori Energy and Dori Energy's representative on Dorad's board of directors, who is also a member of our Board of Directors, filed a petition, or the Petition, for approval of a derivative action on behalf of Dorad with the Economic Department of the Tel Aviv-Jaffa District Court. The Petition was filed against Zorlu, Zorlu's current and past representatives on Dorad's board of directors and Wood Group and several of its affiliates, all together, the Defendants. The petition requested, inter alia, that the court instruct the Defendants to disclose and provide to Dorad documents and information relating to the contractual relationship between Zorlu and Wood Group, which included the transfer of funds from Wood Group to Zorlu in connection with the EPC agreement of the Dorad Power Plant. For the sake of caution, Plaintiffs further requested to reserve their rights to demand, on behalf of Dorad, monetary damages in a separate complaint after Dorad receives the aforementioned information and documents.

In January 2016, Dori Energy filed a motion to amend the Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents, to remove Zorlu's representatives and to add several documents which were obtained by Dori Energy, after the Petition had been filed. Dorad and Wood Group filed their response to the motion to amend the Petition and Zorlu filed a motion for dismissal. During the hearing held in March 2016, Zorlu withdrew the motion for dismissal and is required to submit its response to the motion to amend the Petition by March 31, 2016.

At a hearing held in April 2016, the request submitted in January 2016 to amend the Dori Energy Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents was approved. At the end of July 2016, the respondents filed their responses to the amended Dori Energy Petition. Dori Energy and Hemi Raphael had until December 19, 2016 to reply to the respondents' response. Following the recusal of the judges in the Economic Department of the Tel Aviv-Jaffa District Court, in September 2016 the President of the Israeli Supreme Court instructed that the parties will inform the court as to the proper venue in which the petition should be heard and to update the court whether the parties reached an agreement as to the transfer of the dispute to an arbitration proceeding. During October 2016, Dori Energy notified the court that the parties have not yet reached an agreement and requested that the court determine which judges will decide on the petition and the respondents notified the court that the discussion concerning transferring the dispute to an arbitration process are advancing and an attempt will be made to reach an arbitration agreement during November 2016. On November 15, 2016, the President of the Israeli Supreme Court instructed that the parties will update the court on the proposed transfer of the proceeding to an arbitration process by early December 2016.

In December 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceedings mentioned below will be arbitrated before Judge (retired) Hila Gerstel. In January 2017, the arbitrator ruled, among other things, that the statements of claim in the various proceedings will be submitted by February 19, 2017, the statements of defense will be submitted by April 4, 2017, discovery affidavits will be submitted by April 6, 2017, responses will be submitted by May 4, 2017 and a preliminary hearing will be held on May 10, 2017. These dates were extended with the agreement of the parties so that the statements of claim will be submitted by February 23, 2017 and the statements of defense will be submitted by April 9, 2017. Following the execution of the arbitration agreement, Dori Energy and Mr. Raphael requested the deletion of the proceeding and the request was approved. A statement of claim, or the Claim, was filed by Dori Energy and Mr. Raphael on behalf of Dorad against Zorlu, Mr. Edelsburg, Edelcom and Edeltech Holdings 2006 Ltd., or Edeltech, and, together with Mr. Edelsburg and Edelcom, the Edelsburg Group, on February 23, 2017 in which they repeated their claims included in the amended Petition and in which they required the arbitrator to obligate the defendants, jointly and severally, to pay an amount of \$183,367,953 plus interest and linkage to Dorad. During March 2017, the respondents filed two motions with the arbitrator as follows: (i) to instruct the plaintiffs to resubmit the statement of claim filed in connection with the arbitration proceedings in a form that will be identical to the form of the statement of claim submitted to the court, with the addition of the monetary demand only or, alternatively, to instruct that several sections and exhibits will be deleted from the statement of claim and (ii) to postpone the date for filing their responses by 45 days from the date the motion set forth under (i) is decided upon. The plaintiffs filed their objection to both motions and some of the respondents filed their responses to the objection. In April 2017, the Defendants filed their statements of defense. Within the said statements of defense, Zorlu attached a third party notice against Dorad, Dori Energy and the Luzon Group, in the framework of which it repeated the claims on which its defense statement was based and claimed, among other claims, that if the plaintiffs' claim against Zorlu was accepted and would negate Zorlu's right receive compensation and profit from its agreement with Dorad and therefore Zorlu should be compensated in the amount of approximately NIS 906.4 million (approximately €218.3 million). Similarly, also within their statement of defense, Edelcom, Mr. Edelsburg and Edeltech filed a third party notice against Dori Energy claiming for breaches by Dori Energy of the duty to act in good faith in contract negotiations and that any amount ruled will constitute unlawful enrichment.

In October 2017, EAIS, which holds 37.5% of Dorad's shares, filed a statement of claim in this arbitration proceeding. In its statement of claim, EAIS joins Dori Energy's and Mr. Raphael's request as set forth in the Claim and raises claims that are similar to the claims raised by Dori Energy and Mr. Raphael in the Claim.

In November 2017, Dori Energy and Mr. Raphael filed their responses to the defendants' statements of defense and in December 2017, Dori Energy, Mr. Raphael and EAIS filed their statements of defense to the third party notices submitted by the defendants. In December 2017, Zorlu filed a request in connection with the Dori Energy statement of claim to the extent it is directed at board members serving on behalf of Zorlu and in January 2018 the arbitrator provided its ruling that the legal validity of the actions or inactions of board members of Dorad will be attributed to the entities that are shareholders of Dorad on whose behalf the relevant board member acted and the legal determinations, if any, will be directed only towards the shareholders of Dorad. During January 2018, Mr. Edelsburg, Edelcom and Zorlu filed their statement of defense in connection with the claim filed by EAIS and also filed third party notices against EAIS, Dori Energy and the Luzon Group claiming that EAIS and the Luzon Group enriched themselves at Dorad's account without providing disclosure to the other shareholders and requesting that, should the position of Dori Energy and EAIS be accepted in the main proceeding, the arbitrator, among other things, obligate EAIS to refund to Doard all of the rent paid to date and determine that Dorad is not required to pay any rent in the future or determine that the rent fees be reduced to their market value and refund Dorad the excess amounts paid by it to EAIS, to determine that the board members that represent EAIS and Dori Energy breached their fiduciary duties towards Dorad and obligate EAIS and Dori Energy to pay the amount of \$140 million, plus interest in the amount of \$43 million, which is the amount Zorlu received for the sale of its rights under the Dorad EPC agreement, and to rule that in connection with the engineering and construction works performed by the Luzon Group, the Luzon Group and Dori Energy are required to refund to Dorad or compensate the defendants in an amount of \$24 million, plus interest and linkage and, alternatively, to determine that Mr. Edelsburg, Edelcom and Zorlu are entitled to indemnification from the third parties for the entire amount they will be required to pay.

In March 2018, Zorlu and Edelcom submitted requests to remove the arbitrator from her position. In April 2018 the other parties to the arbitration filed their responses (objections) to the said requests and responses were also submitted thereafter by Zorlu and Edelcom. In June 2018, the arbitrator rejected the requests for her removal from office. In July 2018, an arbitration meeting was held, in which the parties agreed to postpone the dates set for the arbitration process, and among other things, the dates for evidentiary hearings were set for March and April 2019. In addition, in July 2018, Edelcom and Zorlu submitted opening motions to the Tel Aviv District Court for the removal of the arbitrator from her position. In October 2018 a hearing was held in the Tel Aviv District Court and the court ruled to reject the opening motions and ordered that the parties should resume the arbitration proceedings. In November 2018, Edelcom and Zorlu submitted requests to the Israeli Supreme Court for permission to file an appeal on the Tel Aviv District Court's ruling. The requests in connection with the removal of the arbitrator from her position also relate to the other proceedings held before the arbitrator as set forth below. In November 2018, Zorlu submitted an agreed-upon request for approval of a procedural arrangement in connection with meeting dates and discovery process. In January 2019, Dori Energy, EAIS and Dori Energy's representative on the Dorad board of directors filed their response to the request for permission to file an appeal submitted by Edelcom and Zorlu to the Israeli Supreme Court. On January 30, 2019, the arbitrator ruled to cancel the evidentiary hearings scheduled for March and April 2019 and determined that the parties are to immediately schedule new hearing dates. Following requests submitted by Zorlu and the Edelsburg Group in connection with discovery on behalf of Dori Energy and EAIS, on January 23, 2019 the parties filed a notice of an agreed-upon process in the matter pursuant to which Dori Energy and EAIS will submit updated discovery on January 24, 2019. In February 2019, the Edelsburg Group submitted a request to delete sections of EAIS' response and EAIS and Dori Energy submitted a request to remove redactions from discovery.

On February 12, 2019, the Israeli Supreme Court ruled by a majority ruling that the appeal submitted should be accepted by removing the arbitrator from her position and determined that the respondents in the proceedings will pay expenses to Zorlu in the amount of NIS 10,000. In accordance with the arbitration agreement, in the event the arbitrator cannot fulfil her position, the parties are to appoint a replacement arbitrator within 14 days or otherwise request that a court appoint an arbitrator. The parties are in the process of appointing a new arbitrator.

For more information see Note 6 to our annual financial statements included elsewhere in this report.

In February 2016 the representatives of Edelcom Ltd., which holds 18.75% of Dorad, or Edelcom, and Ori Edelsburg sent a letter to Dorad requesting that Dorad file a claim against Ellomay Energy, our wholly-owned subsidiary that holds Dori Energy's shares, the Luzon Group and Dori Energy referring to an entrepreneurship agreement that was signed in November 2010 between Dorad and the Luzon Group, pursuant to which the Luzon Group received payment in the amount of approximately NIS 49.4 million (approximately €11.9 million) in consideration for management and entrepreneurship services. Pursuant to this agreement, the Luzon Group undertook to continue holding, directly or indirectly, at least 10% of Dorad's share capital for a period of 12 months from the date the Dorad Power Plant is handed over to Dorad by the construction contractor. The Edelcom Letter claims that as a consequence of the management rights and the options to acquire additional shares of Dori Energy granted to us pursuant to the Dori Investment Agreement, the holdings of the Dori Group in Dorad have fallen below 10% upon execution of the Dori Investment Agreement. The Edelcom Letter therefore claims that Dori Group breached its commitment according to entrepreneurship agreement. The Edelcom Letter requests that Dorad take all legal actions possible against the Dori Group, Dori Energy, Ellomay Energy and Mr. Hemi Raphael to recover the amounts it paid in accordance with the entrepreneurship agreement and also notify Dori Energy that, until recovery of the entrepreneurship fee, Dorad shall withhold the relevant amount from any amount Dori Energy is entitled to receive from Dorad, including repayments of shareholders' loans and dividend distributions. In July 2016, Edelcom filed a petition for approval of a derivative action against Ellomay Energy, the Luzon Group, Dori Energy and Dorad. In November 2016, Ellomay Energy and Dori Energy filed a joint petition requesting that this application be transferred to the same judges who will be adjudicating the petition filed by Dori Energy and Hemi Raphael mentioned above and in November 2016, Edelcom filed an objection to this request. As noted above, in December 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the proceeding mentioned above and below will be arbitrated before Judge (retired) Hila Gerstel and the proceeding before the court was deleted. On February 23, 2017, Edelcom submitted the petition to approve the derivative claim to the arbitrator. On April 30, 2017, Ellomay Energy filed its response to the petition and on May 1, 2017 the Luzon Group filed its response to the petition. For more information see above and see Note 6 to our annual financial statements included elsewhere in this report.

Statement of Claim filed by Edelcom

In July 2016, Edelcom filed a statement of claim, or the Edelcom Claim, with the Tel Aviv District Court against Dori Energy, Ellomay Energy, the Luzon Group, Dorad and the other shareholders of Dorad. In the Edelcom Claim, Edelcom contends that a certain section of the shareholders agreement among Dorad's shareholders, or the Dorad SHA, contains several mistakes and does not correctly reflect the agreement of the parties. Edelcom claims that these purported mistakes were used in bad faith by the Luzon Group, Ellomay Energy and Dori Energy during 2010 in connection with the issuance of Dori Energy's shares to Ellomay Energy and that, in effect, such issuance was allegedly in breach of the restriction placed on Dorad's shares and the right of first refusal granted to Dorad's shareholders in the Dorad SHA. The Edelcom Claim requests the court to: (i) issue an order compelling the Luzon Group, Ellomay Energy and Dori Energy to act in accordance with the right of first refusal mechanism included in the Dorad SHA and to offer to the other shareholders of Dorad, including Edelcom, a right of first refusal in connection with 50% of Dori Energy's shares (which are currently held by Ellomay Energy, a wholly-owned subsidiary of the Company), under the same terms agreed upon by the Luzon Group, Ellomay Energy and Dori Energy in 2010, (ii) issue an order instructing Dorad to delay all payment due to Dori Energy as a shareholder of Dorad, including dividends or repayment of shareholders' loans, for a period as set forth in the Edelcom Claim, (iii) issue an order instructing Dorad to remove Dori Energy's representative from Dorad's board of directors (currently Mr. Hemi Raphael, who also serves on our Board) and to prohibit his presence and voting at the Dorad board of directors' meetings, for a period as set forth in the Edelcom Claim, and (iv) grant any other orders as the court may deem appropriate under the circumstances. In November 2016 Ellomay Energy and Dori Energy filed a joint petition requesting that this application be transferred to the same judges who will be adjudicating the petition filed by Dori Energy and Hemi Raphael mentioned above and on November 27, 2016, Edelcom filed an objection to this request. As noted above, on December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceeding mentioned above will be arbitrated before Judge (retired) Hila Gerstel and the proceeding before the court was deleted. On February 23, 2017, Edelcom submitted the statement of claim to the arbitrator. On April 30, 2017, Ellomay Energy filed its statement of defense and on May 1, 2017 the Luzon Group filed its statement of defense. In addition, the parties agreed to try to conduct mediation proceedings without delaying the arbitration proceedings. The mediation proceedings ended in August 2017 without consent, and the dates of the arbitration proceedings remained the same. For more information see above.

On December 8, 2016, Edelcom filed an opening motion with the Economic Department of the Tel Aviv-Yaffo District Court against the Luzon Group, Dori Energy and Dorad, or the Opening Motion. The Opening Motion was filed shortly after the publication in Israel of a prospectus by the Luzon Group for the issuance of debentures to the Israeli public, proposed to be secured, among other securities, by a pledge on Dori Energy's shares that are held by the Luzon Group (representing a 50% ownership percentage in Dori Energy, with us, indirectly, holding the remaining 50%).

In the Opening Motion, Edelcom requests the court to declare that: (a) the creation of a lien on Dori Energy's shares held by the Luzon Group triggers the right of first refusal mechanism included in the Dorad SHA, (b) that the Luzon Group and/or Dori Energy are obligated to act in accordance with such right of first refusal and enable the shareholders of Dorad to acquire all of Luzon Group's holdings in Dori Energy or, indirectly, in Dorad, for a consideration of NIS 70 million less the value of other securities provided to the debenture holders or, alternatively, for an amount to be determined by an economic expert appointed by the court, and (c) to determine that Edelcom's notice of exercise of its right of first refusal, obligates the Luzon Group and/or Dori Energy.

During January 2017, Edelcom filed a request to amend the Opening Motion to request the court to also examine the issuance of shares of Dori Energy to Ellomay Energy in 2010 as, based on Edelcom's position, the pledging of Dori Energy's shares by the Luzon Group finalized the disposition of all of the Luzon Group's shares in Dori Energy to third parties and therefore Edelcom claims that the right of first refusal included in the Dorad SHA is available to Edelcom. During January 2017 the Luzon Group filed its response to the Opening Motion and a request to schedule an urgent hearing. Thereafter, the Luzon Group filed its objection to Edelcom's request to amend the Opening Motion claiming that Edelcom did not disclose the relevant sections of the Dorad SHA and the request to amend the Opening Motion does not comply with the applicable law regarding amending court claims.

During January 2017, after the Luzon Group amended its prospectus to reflect the issuance of unsecured debentures, Edelcom filed a motion to stop the Opening Motion as Edelcom claimed it was no longer relevant. The Luzon Group requested the court to either rule that Edelcom's request to stop the Opening Motion permits the creation of the lien on the Luzon Group's shares of Dori Energy or, to the extent Edelcom has not changed its claims, the request to stop the Opening Motion should be rejected and the case ruled on by the court as soon as possible in order to enable the Luzon Group to provide a pledge on its shares of Dori Energy to its debenture holders. In February 2017, Edelcom filed its response to the Luzon Group's request noting that the Luzon Group's position is not possible as the Luzon Group undertook not to pledge Dori Energy shares until the Opening Motion is decided on and on the other hand the Luzon Group claims that there is still an undertaking to provide the pledge. The trustee of the debentures issued by the Luzon Group notified the court that it does not have a position in the matter. During March 2017 a hearing was held and it was decided that the Luzon Group will file during March 2017 an opening motion on its behalf and such opening motion was filed by the Luzon Group. A hearing was scheduled for May 2017. Based on our review of the Opening Motion and related documents, we estimate that the chances of the court dismissing the Opening Motion filed by Edelcom are higher than the chances of the court granting the relief requested in such Opening Motion. On January 5, 2017, Ellomay Energy LP filed a request to join the proceeding as the outcome of the Opening Motion may materially affect its rights. The court approved Ellomay Energy LP's request. In March 2017, the Luzon Group filed an opening motion on its behalf requesting that the court rule on the issues raised in the Opening Motion. On August 31, 2017, the Israeli District Court ruled that a pledge on Dori Energy's shares held by the Luzon Group as contemplated by the Luzon Group in its prospectus governing the debentures issued by the Luzon Group does not trigger a right of first refusal to any of Dorad's shareholders. The Israeli District Court further determined that Edelcom will pay legal expenses to the Luzon Group and the other parties to the proceeding. The Luzon Group noted in its filing with the Israel Securities Authority that subject to the ruling becoming final and the passing of the appeal period on this ruling, its conditional undertaking to provide a pledge on its Dori Energy shares will become effective. On October 26, 2017, Edelcom filed an appeal with respect to the ruling of the Israeli District Court with the Israeli Supreme Court. In February 2018, following the filing by the various parties of their claims and responses, a hearing was held in the Israeli Supreme Court and Edelcom withdrew the appeal and it was dismissed. In February 2018, a pledge was registered on the Luzon Group's rights in, and shares of, Dori Energy for the benefit of the Luzon Group's series H debentures.

Competition

Dorad competes with the IEC and other private electricity manufacturers with respect to sales to potential customers directly.

Dorad's position is that the current regulation and structure of the Israeli electricity market provide IEC with a competitive advantage over the private electricity manufacturers. However, as long as the regulation remains unchanged, as the IEC controls the transmission and delivery lines and the connection of the private power plants to the Israeli national grid, Dorad and the other private manufacturers are dependent on the IEC for their operations and may also be subject to unilateral actions on the part of IEC's employees. For example, the approval of Dorad's permanent licenses was delayed due to ongoing disputes between the IEC and its employees. For more information see "Material Effects of Government Regulations on Dorad's Operations" below.

Customers

Dorad entered into electricity supply agreements with various commercial consumers for an aggregate of approximately 95% of the production capacity of the Dorad Power Plant. The end-users include the Israeli Ministry of Defense, Mekorot (Israel's water utility and supply company), Israeli food manufacturers (Ossem and Strauss), Israeli hotel chains (Isrotel and Fattal), and others. The electricity supply agreements are, mainly, based on a reduced rate compared to the rate applicable to electricity consumers in the general market, as determined by the Israeli Electricity Authority.

In addition to the provision of electricity to specific commercial consumers, the agreement between Dorad and the IEC, which governs the provision of services and electricity from the IEC to Dorad, provides that Dorad will supply availability and energy to the IEC based on a production plan determined by the Israeli Electricity Authority, on IEC's requirements and on the tariffs determined by the Israeli Electricity Authority.

Sources and Availability of Raw Materials for the Operations of the Dorad Power Plant

The Dorad Power Plant is a bi-fuel plant, using natural gas as the main fuel and diesel oil in the event of an emergency. Pursuant to publications of the Israeli Ministry of Energy, natural gas is currently being used for the production of approximately 50% of the electricity produced in Israel.

Agreement with Tamar

On October 15, 2012, Dorad entered into the Tamar Agreement with Tamar, which is currently the sole supplier of natural gas for the Israeli electricity market. Pursuant to information received from Dorad, following the fulfillment of certain conditions precedent that are set forth in the Tamar Agreement, Dorad purchases natural gas from Tamar for purposes of operating the Dorad Power Plant and the main terms of the Tamar Agreement are as follows:

· Tamar has committed to supply natural gas to Dorad in an aggregate quantity of up to approximately 11.2 billion cubic meters (BCM), or the Total Contract Quantity, in accordance with the conditions set forth in the Tamar Agreement.

· The Tamar Agreement will terminate on the earlier to occur of: (i) sixteen (16) years following the commencement of delivery of natural gas to the Dorad power plant or (ii) the date on which Dorad will consume the Total Contract Quantity in its entirety. Each of the parties to the Tamar Agreement has the right to extend the Tamar Agreement until the earlier of: (i) an additional year provided certain conditions set forth in the Tamar Agreement were met, or (ii) the date upon which Dorad consumes the Total Contract Quantity in its entirety.

· Dorad has committed to purchase or pay for ("take or pay") a minimum annual quantity of natural gas in a scope and in accordance with a mechanism set forth in the Tamar Agreement. The Tamar Agreement provides that if Dorad did not use the minimum quantity of gas as committed, it shall be entitled to consume this quantity every year during the three following years and this is in addition to the minimum quantity of gas Dorad is committed to.

· The Tamar Agreement grants Dorad the option to reduce the minimum annual quantity so that it will not exceed 50% of the average annual gas quantity that Dorad will actually consume in the three years preceding the notice of exercise of the option, subject to adjustments set forth in the Tamar Agreement. The reduction of the minimum annual quantity will be followed by a reduction of the other contractual quantities set forth in the Tamar Agreement. The option described herein is exercisable during the period commencing as of the later of: (i) the end of the fifth year after the commencement of delivery of natural gas to Dorad in accordance with the Tamar Agreement or (ii) January 1, 2018, and ending on the later of: (i) the end of the seventh year after the commencement of delivery of natural gas to Dorad in accordance with the Tamar Agreement or (ii) December 31, 2020. In the event Dorad exercises this option, the quantity will be reduced at the end of a one year period from the date of the notice and until the termination of the Tamar Agreement.

· During an interim period, that will commence upon the fulfillment of conditions set forth in the Tamar Agreement, or the Interim Period, the natural gas supply to Dorad will be subject to the quantities of natural gas available to Tamar at the time following the supply of natural gas to customers of the “Yam Tethys” project and other customers of Tamar that have executed natural gas supply agreements with Tamar prior to the execution of the Tamar Agreement. The Interim Period will end after (and to the extent) Tamar completes a project to expand the supply capacity of the natural gas treatment and transmission system from Tamar, subject to the fulfillment of conditions set forth in the Tamar Agreement, or the Expansion Project. In the event the conditions for the completion of the Expansion Project are not fulfilled, or the Expansion Project is not completed by the dates set forth in the Agreement, Dorad shall be entitled to terminate the Tamar Agreement. Upon completion of the Expansion Project, the minimum capacity set forth in the Tamar Agreement will increase and the Total Contract Quantity will increase respectively up to approximately 13.2 BCM. In April 2015, Dorad received a notification from Tamar whereby the Interim Period began in May 2015 and on November 26, 2017, the Company received a notification from Tamar whereby the Interim Period will end on September 30, 2020.

· The natural gas price set forth in the Tamar Agreement is linked to the production tariff as determined from time to time by the Israeli Electricity Authority, which includes a “final floor price.” Following the decreases in the price of fuel and electricity during 2015, the Israeli Electricity Authority reduced the rate of electricity production, and as a result the natural gas price under the Tamar Agreement reached the “final floor price” in March 2016. Commencing January 1, 2019, the production component rate was increased by approximately 3.3%, resulting in an increase of the gas price under the Tamar Agreement, however, in the event of future reductions, the natural gas price may again reach the final floor price and not be subsequently reduced despite further reduction in the rate of electricity production.

· Dorad may be required to provide Tamar with guarantees or securities in the amounts and subject to the conditions set forth in the Tamar Agreement.

· The Tamar Agreement includes additional provisions and undertakings as customary in agreements of this type such as compensation mechanisms in the event of shortage in supply, the quality of the natural gas, limitation of liability, etc.

As a result of the indexation included in the gas supply agreement, Dorad is exposed to changes in exchange rates of the U.S. dollar against the NIS. To minimize this exposure Dorad executed forward transactions to purchase U.S. dollars against the NIS.

Tamar and Dorad were in dispute over the price of natural gas due to the update of the electricity production costs determined by the Israeli Electricity Authority during 2013. In November 2015, Dorad reached an arrangement with Tamar whereby Dorad’s obligation to acquire the gas for the period preceding the commencement date of the actual consumption of the gas will be cancelled, where in addition the parties also settled the disagreement regarding the tariff linkage during the period of the dispute, with no monetary consequences.

Dorad is also a party to a natural gas delivery agreement and to a diesel oil warehousing agreement. In November 2013, the Natural Gas Authority of the Israeli Ministry of Energy approved the connection of the Dorad Power Plant to the national gas pipeline network.

Natural Gas Purchase Agreement with Energian

On October 30, 2017, Dorad signed an agreement with Energian Israel Ltd., or Energian, regarding the acquisition of natural gas, in a cumulative volume of approximately 6 BCM over a period of 14 years, from the Karish and Tanin reserves held by them and whose completion is expected to be by the end of 2020. Dorad will purchase about half of the gas required to operate the Dorad Power Plant and the rest of the demand will continue to be supplied by Tamar. According to the agreement with Energian, if Dorad does not actually consume the minimum quantity it has undertaken, it will be forced to consume this quantity. On November 2018, all the suspending conditions included in the agreement with Energian were fulfilled.

Material Effects of Government Regulations on Dorad's Operations

As noted above under "Material Effects of Government Regulations on the Israeli PV Plant," the regulatory framework applicable to the production of electricity by the private sector in Israel is provided under the Electricity Law, regulations promulgated thereunder, and other standards, guidelines and instructions published by the Israeli Electricity Authority and the IEC.

Licenses

In February 2010, the Israeli Electricity Authority granted Dorad a Conditional License, as defined by the Electricity Market Regulations) for the construction of a natural gas (and alternative fuel for back up purposes) operated power plant in Ashkelon, Israel for the production of electricity, with an installed production capacity of 760-850 MW. The conditional license issued to Dorad included several conditions precedent to the entitlement of the holder of such license to produce and sell electricity to the Israeli Electric Company.

In April 2014, the Israeli Electricity Authority resolved to grant Dorad a generation license for a period of twenty years and a supply license for a period of one year, or the Licenses, which become effective with the receipt of the approval of the Minister. The execution of the Licenses was under the examination of the Israeli Ministry of Justice due to an outstanding legal proceeding between the employees of the IEC, the IEC and the State of Israel in the Israeli local labor court. In connection with such legal proceeding, the labor court ruled that the State of Israel should refrain from any change to the status quo that influences or could affect the mandates of the IEC pending the discussions among the parties to the legal proceeding. In May 2014 an urgent petition was filed by Dorad with the Israeli High Court of Justice concerning the delay in the provision of the Licenses to the Dorad Power Plant, or the Petition, requesting the issuance of conditional orders against, among others, the Israeli Electricity Authority, the legal advisor to the government and the Minister, to provide the reasons for not signing the Licenses despite governmental undertakings that were provided to Dorad. An urgent hearing at the High Court of Justice was scheduled for May 11, 2014. At the hearing the parties to the Petition reached a settlement, which the Israeli High Court of Justice approved, that, among other things, included the agreement of the parties that the Minister will approve the Licenses and that Dorad will be made a party to any petition or claim filed in the future by any of the parties that may affect Dorad. In August 2014, Dorad filed a request to extend the supply license for an additional period of nineteen years and the long-term supply license was executed in July 2015.

In September 2010, Dorad received a draft approval of conditional tariffs from the Israeli Electricity Authority that sets forth the tariffs applicable to the Dorad Power Plant throughout the period of its operation, and in October 2013, Dorad received a revised approval of tariffs pursuant to the Tamar Agreement.

In addition, in July 2009, the Licensing Authority of the National Planning and Construction Board for National Infrastructure established pursuant to the Israeli Zoning and Construction Law, 1996, or the Construction Law, granted a building permit with respect to the Dorad Power Plant (Building License No. 2-01-2008), as required pursuant to the Construction Law.

The Israeli Electricity Authority determined the method and tariffs for the provision of availability and electricity by private electricity manufacturers to the IEC in the event not all of the capacity of such manufacturers was sold directly to customers. The Israeli Electricity Authority's decision provides that the IEC will pay for the availability even in the event electricity was not actually used by end customers depending on the amount of electricity made available to the IEC.

As noted above, the transmission and delivery lines used by the Dorad Power Plant are managed by the IEC, and the IEC is solely licensed to operate electricity systems (i.e. to oversee and manage the production and transmission of electricity) in Israel. In May 2013, the Israeli Electricity Authority determined a temporary fee that will be charged by the IEC per KWh for its electricity system operator services from its customers, from private energy manufacturers, such as Dorad, and from "self-manufacturers" (i.e. those who manufacture electricity for self-use). The Israeli Electricity Authority determined that once a permanent fee is established, a retroactive settling of accounts will be performed. As more fully detailed below, in August 2015 the permanent rate was published by the Israeli Electricity Authority.

In August 2013, a steering committee for a reform in IEC was established, with the purposes of, *inter alia*, structuring the Israeli electricity market, including the implementation of competition in the relevant sectors, and suggesting an overhaul reform of the Israeli electricity market. In March 2014, the steering committee published an interim report for comments. One of the recommendations of the steering committee is to create an independent system operator and to maintain a minimal percentage of electricity produced by private manufacturers in Israel (42%), including by selling some of the power plants owned by the IEC to private entities.

In July 2014, Dorad petitioned the Israeli High Court against the Israeli Electricity Authority and the IEC in view of the Israeli Electricity Authority's intention to approve a resolution that, *inter alia*, requires the private electricity producers to pay IEC a new rate, generally referred to by the Israeli Electricity Authority as "system costs". The Israeli High Court decided that the Israeli Electricity Authority will submit its response until September 2014 and the IEC also requested permission to submit its response. The IES and the Israeli Electricity Authority have since submitted their responses to the court and the Israeli Electricity Authority contended that the petition should be denied for various reasons.

On August 25, 2014, the Israeli Electricity Authority published a proposed decision for a hearing regarding the rates of the “system costs,” in which details were provided on the system services provided by IEC and their rates. According to the proposed decision, the rates will be effective retroactively as from June 1, 2013 but for Dorad will be effective only from the date of its commercial operation.

On December 22, 2014, the Israeli Electricity Authority published a proposed decision titled “Electricity Rates for Customers of IEC in 2015,” which includes a reduction of the rates for Dorad’s customers. According to the decision the rates of the manufacturing component which serves as the basis for charging Dorad’s customers and to which the price of the gas is linked, will be reduced by about 9% as from February 1, 2015.

On August 6, 2015, the Israeli Electricity Authority published a decision establishing the rate in respect of “system management service charges” (system costs). As of December 31, 2015, Dorad settled such charges for the period until June 2015, and as from July 2015 regular charges are received from the IEC for these services.

On September 7, 2015, the Israeli Electricity Authority published a decision reducing the electricity rates. According to this decision, the production tariff, based on which Dorad’s customers are charged and to which the price of the natural gas under the Tamar Agreement is linked, was reduced by approximately 6.8% commencing September 13, 2015.

The Israeli Electricity Authority scheduled an additional hearing for early December 2016 concerning possible reductions in the electricity production tariff by 8%. On December 17, 2016, following such hearing, the Israeli Electricity Authority published its decision concerning the tariff updates for 2017 whereby, among other things, it determined to limit the reduction in the electricity production tariff to approximately 0.45% and it stated that it will not further update the tariffs until December 2017.

On January 15, 2018, the electricity rate has been changed and overage production component was increased by approximately 6% from January 15, 2018. On December 24, 2018, the Electricity Authority published its decision to increase the 2019 electricity rate by approximately 3%.

Permits and Environmental Laws

Dorad is required to obtain and maintain various licenses and permits from local and municipal authorities for its operations.

The Dorad Power Plant is subject to a variety of Israeli environmental laws and regulations, including limitations concerning noise, emissions of pollutants and handling hazardous materials.

Waste-to-Energy Projects



Plant Title	Installed/ production Capacity ¹	Location	Technology of Panels	Connection to Grid	FiT (€/kWh) ²	Revenue in the year ended December 31, 2017 (in thousands)	Revenue in the year ended December 31, 2018 (in thousands)
“Groen Gas Goor”	475 Nm ³ /h	Goor, the Netherlands	N/A	November 2017	N/A	N/A ¹	€2,760
“Goren Gas Oude-Tonge”	375 Nm ³ /h	Oude-Tonge, the Netherlands	N/A	June 2018	N/A	N/A ²	€1,723

1. This facility has been operational since December 2017 and therefore revenues for the prior periods are not reflected herein.

2. This facility has been operational since June 2018 and therefore revenues for the prior periods are not reflected herein.

Agreement with Ludan in connection with Netherlands Waste-to-Energy Projects

In July 2016, we, through Ellomay Luxemburg, entered into an agreement, or the Ludan Agreement, with Ludan Energy Overseas B.V., or Ludan Energy (an indirectly wholly-owned subsidiary of Ludan) in connection with WtE (specifically Gasification and Bio-Gas (anaerobic digestion)) projects in the Netherlands.

Pursuant to the Ludan Agreement, subject to the fulfillment of certain conditions (including the financial closing of each project, and receipt of a valid Sustainable Energy Production Incentive subsidy from the Dutch authorities and applicable licenses), we, through Ellomay Luxembourg, will acquire at least 51% of each project company and Ludan will own the remaining 49% (each project that meets the conditions under the Ludan Agreement is referred to as an “Approved Project”). In the event additional entities will invest in an Approved Project, their holdings will not dilute Ellomay Luxembourg’s 51% share without our prior approval, and in any case, Ellomay Luxembourg will maintain the majority stake in any project company. The amount invested by us in each Approved Project will be comprised of: (i) our share of the equity based on its holdings in the Approved Project and (ii) an additional amount up to an aggregate investment that will reflect a pre-determined minimal internal rate of return to us, up to a certain maximum percentage of the aggregate investment by Ludan and us. Ludan will provide the remaining required equity.

The operation period for each of the projects is expected to be approximately twelve years. The Ludan Agreement provided that Ludan Energy, by itself or through its affiliates, will act as the engineering, procurement and construction contractor and as the O&M contractor for the Approved Projects, based on specific agreements. However, it was agreed that the first Gasification project will be constructed by an experienced third party EPC. In addition, Ludan will be entitled to receive a development fee for each project following financial closing in different amounts depending on the projects’ type and size.

The Ludan Agreement included customary limitations on transfer of holdings in the project companies, termination provisions and minority rights.

We acquired 51% of Groen Gas Goor B.V., or Groen Goor, a project company developing an anaerobic digestion plant, with a green gas production capacity of approximately 375 Nm³/h, in Goor, the Netherlands, or the Goor Project in December 2016 and 51% of the Oude Tonge Project in May 2017, both pursuant to the Ludan Agreement.

In March 2019, we executed the Ludan Acquisition Agreement with Ludan and several entities affiliated with Ludan, for the acquisition by Ellomay Luxembourg of 49% of the companies that own the Goor Project and the Oude Tonge Project and of the shareholders’ loans provided by Ludan affiliates to such companies. As we currently indirectly own 51% of these projects, following consummation of the acquisition contemplated by the Ludan Acquisition Agreement, we will indirectly wholly-own the WtE Projects in their entirety. The consummation of the acquisition contemplated by the Ludan Acquisition Agreement is subject to customary conditions, including the approval of the financing bank of the WtE Projects. The Ludan Acquisition Agreement also provides for the immediate (and unconditional) termination of the operations and maintenance arrangement of the WtE Projects with Ludan’s affiliates effective as of January 27, 2019. The Ludan Agreement will terminate upon consummation of the transactions contemplated by the Ludan Acquisition Agreement.

The Goor Project

General

Further to the Ludan Agreement, during 2016 we entered into loan agreements with Ludan whereby we provided approximately €2.1 million to Ludan, or the Ludan Loans, for purposes of the acquisition of the rights in Groen Gas Goor B.V., or Groen Goor, a project company developing an anaerobic digestion plant, with a green gas production capacity of approximately 375 Nm³/h, in Goor, the Netherlands, or the Goor Project and the land on which the Goor Project will be constructed. Ellomay Luxembourg was issued shares representing a 51% interest in Groen Goor. The Groen Goor Loans converted into Ellomay Luxembourg shareholder’s loans to Groen Goor upon the financial closing of the Goor Project, which occurred in December 2016.

During September 2016, Ellomay Luxembourg entered into a memorandum of understanding, or MOU, with Ludan, setting forth Ludan's and our agreed material principles and understandings with respect to the Goor Project's EPC agreement, or the EPC MOU. During November 2016, Groen Goor entered into an EPC agreement in connection with the Goor Project, or the EPC Agreement, of an anaerobic digestion plant in Goor, the Netherlands, with Ludan. The "EPC Agreement" means the provisions of the General Conditions for EPC/Turnkey Projects, published by FIDIC (first edition 1999, ISBN 2-884-32-021-0), or the FIDIC GC, as amended by the EPC MOU, and as amended by the "Particular Conditions" and its annexes and schedules. In each case of contradiction between the provisions of the FIDIC GC and the provisions of the EPC MOU and/or of the Particular Conditions, the provisions of the Particular Conditions and of the EPC MOU shall prevail, and in each case of contradiction between the provisions of the Particular Conditions and the provisions of the EPC MOU, the provisions of the EPC MOU shall prevail and the parties shall promptly amend the provisions of the Particular Conditions to the extent required to resolve any such contradiction. The scope of the work includes a turn-key anaerobic wet digestion plant producing Biogas in completely stirred digesters as more fully described in the EPC Agreement. In November 2016 Groen Goor entered into an EPC agreement with Ludan.

The Goor Project commenced operations in December 2017. The expected overall capital expenditure in connection with the Goor Project is approximately €10 million, including bank financing.

During September 2016, Ellomay Luxembourg entered into a MOU with Ludan, setting forth the agreed material principles and understandings with respect to the Goor Project's O&M agreement, or the O&M Agreement, which include customary O&M terms. According to the O&M MOU, the O&M Agreement will set forth the details of a transition period, as well as details of a transition training program pursuant to which the EPC contractor shall train the O&M contractor and its personnel prior to taking over of the plant, in a manner meeting industry standards. The term of the O&M Agreement shall be twelve (12) years as of take-over (in accordance with the EPC Agreement), plus SDE extensions (if any) and so long as Groen Goor is entitled to subsidies. The O&M Agreement will include a performance criteria based on the provisions of the O&M MOU.

As noted above, effective January 27, 2019, Ludan's performance of O&M services for the Goor Project was terminated. The Goor Project is currently operated by Groen Goor, who recruited experienced employees for this purpose in recent months, who also operate the Oude Tonge Project.

In September 2016, Groen Goor executed a feedstock agreement with regional leader feedstock supplier for a term of 12 years. Pursuant to this agreement, the feedstock mix and prices are to be agreed on an annual basis according to feedstock availability and market prices. In October 2016, Groen Goor executed offtake agreements for selling its produced gas, electricity, green gas certificates and green electricity certificates.

The Oude Tonge Project

Further to the Ludan Agreement, during April 2017 – June 2017 we, through Ellomay Luxemburg, entered into loan agreements with Groen GasOude–Tonge B.V., or Oude Tonge, which was then in the process of developing an anaerobic digestion plant, with a green gas production capacity of approximately 475 Nm³/h, in Oude Tonge, the Netherlands, whereby we provided shareholders loans in the aggregate amount of approximately €1.7 million. Ellomay Luxemburg was issued shares representing a 51% interest in Oude Tonge in April 2017. The Oude Tonge facility commenced operations in June 2018.

Oude Tonge EPC Agreement

The Oude Tonge Project executed an EPC agreement with an affiliate of Ludan, based on terms previously agreed to by us and Ludan.

The duration of the construction of the Oude Tonge Project was approximately one year and the overall capital expenditure in connection with the Oude Tonge Project were approximately €8.5 million, including bank financing. Ludan initially provided O&M services to the Oude Tonge Project, however, as noted above, effective as of January 27, 2019, Ludan's performance of O&M services for the Oude Tonge Project was terminated. The Oude Tonge Project is currently operated by Oude Tonge, who recruited experienced employees for this purpose in recent months, who also operate the Goor Project.

In March 2017, Oude Tonge executed feedstock agreements with three regional leader feedstock suppliers for 12 year terms. Pursuant to these agreements, the feedstock mix and prices are to be agreed on an annual basis according to feedstock availability and market prices. In May 2017, Oude Tonge executed offtake agreements for selling its produced gas and green gas certificates.

Waste-to-Energy Technologies

The process of energy recovery from non-recyclable waste is often referred to as waste-to-energy or energy-from-waste. The waste-to-energy market includes various treatment processes and technologies used to generate a usable form of energy while reducing the volume of waste, including combustion, gasification, pyrolyzation, anaerobic digestion and landfill gas recovery. The resulting energy can be in the form of electricity, gas, heating and/or cooling, or conversion of the waste into a fuel for future use. The Ludan Agreement applies to project in which gasification and anaerobic digestion technologies are implemented.

Gasification in the waste-to-energy market is the process of converting organic carbonaceous materials into carbon monoxide, hydrogen and carbon dioxide (CO₂) by reacting the material at high temperatures (>700 °C), without combustion, with a controlled amount of oxygen and/or steam. This process produces a gas mixture called synthetic gas or syngas or producer gas and is itself a fuel. The organic materials used in the gasification process are a variety of biomass and waste-derived feedstocks, including wood pellets and chips and waste wood.

Anaerobic digestion is a biological process that produces a gas (also known as biogas) principally composed of methane (CH₄) and carbon dioxide (CO₂). These gases are produced from organic waste such as livestock manure and food processing waste and from agro-residues. Depending on the type of feedstock used and the system design, biogas is typically 55%-75% pure methane. The biogas is emitted during the digestion process of the substrates by specific combinations of bacteria. As there is a relatively wide range of feedstock mix that can be used in the process, the facilities in the Netherlands are designed to allow flexibility and reduces dependency on certain feedstock mix or the feedstock supplier. The biogas is used to produce green gas, or bio-methane, with properties close to natural gas that is injected into the natural gas grid.

The anaerobic digestion process leaves an organic residue, the digestate. The digestate can be used as a fertilizer and soil improver and the WtE facility is required to find solutions for the proper disposal of the digestate. The ability to dispose of digestate is subject to the relevant regulation in the target countries with respect to the amounts and timing of disposal of digestate as a fertilizer in such country. In the event restrictions and regulation does not permit disposal in a certain country, the WtE facility is required to dispose of the digestate in more distant locations or to store the digestate, which increase the costs of the disposal of digestate.

Benefits of Waste-to-Energy

Waste-to-energy generates clean, reliable energy from a renewable fuel source, thus expected to reduce dependency on “traditional” energy production methods, such as fossil fuels, oil and other similar raw materials that are less friendly to the environment. The use of waste assists in the on-going management of waste in a manner that is more environmentally-friendly than other waste management solutions, such as landfilling. We believe that by processing waste in waste-to-energy facilities, greenhouse gas emissions and the risk of contamination of ground water will be reduced.

The Netherlands Waste-to-Energy Market and Regulation

In 2009, the European Union enacted legislation that sets the climate and energy targets for the year 2020. The main targets are a 20% cut in greenhouse gas emissions compared to 1990 levels, the production of 20% of the energy in the EU from renewable sources and a 20% improvement in energy efficiency. The target for the production rate of energy from renewable sources set for the Netherlands by the EU to be reached by the year 2020 is 14%. However, in 2017 only 6.6% of the energy in the Netherlands came from renewable sources, putting the Netherlands 7.4% short of its target. The Dutch government’s goal is to have 16% renewable energy by 2023 and to have a fully sustainable energy supply in 2050. In close consultation with various stakeholders, the Dutch government defined this goal initially in the national Energy Agreement (“*Energieakkoord*”) of September 2013. Recently, a follow up Energy Agreement, called the national Climate Agreement (“*Klimaatakkoord*”), which is due to replace the national Energy Agreement, has been prepared as an elaboration on the Paris Agreement, signed by the Dutch government in 2015. Although the commencement of this agreement was scheduled for September 2018, the current version remains a draft. The current draft contains several stringent national climate goals (e.g., a CO₂ emissions reduction of 49% by 2030 and 95% by 2050) to be achieved via numerous national climate measures but does not eliminate the renewable energy goals set out in the Energy Agreement. The cost-effectiveness of these measures and of the national Climate Law (“*Klimaatwet*”) based thereon is currently subject to debate in the Dutch Parliament/Senate.

The Netherlands waste treatment is subject to stringent regulatory requirements, requiring the approximately 10% of the market be processed. As a result, facilities that produce waste (such as farms) are expected to seek more appropriate solutions for waste management. As part of the national Climate Agreement currently proposed to replace the 2013 Energy Agreement, the Dutch government intends to more strictly enforce the legal obligation for facilities/companies to take energy saving measures with a payback period of five years (this obligation is set under the Dutch Environmental Protection Act (“*Wet milieubeheer*”) and the Activity Decree (“*Activiteitenbesluit*”) under that Act). In order to support this effort, the Dutch government has drafted and in January 2019 updated a so called ‘recognized measures’ list, intended to simplify compliance with the energy saving obligation. This list is available as annex 10 to the Activity Regulation (“*Activiteitenregeling*”) under the aforementioned Activity Decree.

To accelerate the energy transition (from fossil to sustainable energy) in the Netherlands, the Dutch Electricity Act (“*Elektriciteitswet*”) obliges network operators to provide priority to facilities that produce renewable energy in the connection to the electricity grid. This Act also sets rules and requirements regarding the connection point’s allocation, the method of connection and the distribution of ‘connection costs’ between network operator and the facility’s operator. Due to a considerable growth of renewable energy developments (e.g., the rise of wind and solar power projects onshore), congestion on the electricity grid is becoming an increasing issue in several parts of the Netherlands (in particular in less densely populated areas with a less robust electricity grid). In this context aforementioned rules are gaining more and more importance.

The current subsidy scheme for renewable energy in the Netherlands is called SDE+ (“*Stimulerings Duurzame Energieproductie*” or Stimulating Renewable Energy Production). The SDE+ budget has increased substantially over recent years and has grown from euro 3.5 billion in 2014 to euro 12 billion in 2018. The SDE+ program in 2019 comprises of two round of applications in spring and fall, with a budget of euro 5 billion in spring and an intended equal budget for fall. The SDE+ budget is included as a premium on the Dutch energy bill. The SDE+ contribution is equal to the base amount (cost price of renewable energy) minus the correction amount (earnings for fossil energy (SPOT price)). The SDE+ subsidy is calculated per annum based on the quantity of the produced eligible renewable energy and the set correction amount. The subsidy applies up to a maximum of full load hours and has a maximum duration dependent on the category of renewable energy involved. SDE+ payments are made based on 80% of the expected outputs, rather than actual production. In the first months of the following calendar year the actual subsidy is calculated based on meter readings and the subsidies are adapted to reflect actual (100%) output.

As of 2020, the SDE+ program will be extended, under the denominator: Stimulating Renewable Energy Transition (“*Stimuleringsregeling Duurzame Energietransitie – SDE++*”). This new subsidy program will stimulate the further rollout of renewable energy and CO2 emissions reducing techniques by compensating the unprofitable top margin of these techniques. This will be organized via an operating subsidy scheme. Currently the SDE++ program is being elaborated in more detail by the Dutch government.

Dutch tax laws provide for an Energy Investment Allowance, or an EIA, – a tax advantage for companies in the Netherlands that invest in energy-efficient technology that meet the Energy List requirements (2019 - as published by the Netherlands Enterprise Agency, Dutch: RVO), allowing a deduction of 45% of the investment costs from the corporate income, on top of the usual depreciation. The right to the EIA is declared with the tax return, provided the investment is timely reported to the Netherlands Enterprise Agency. Due to the expected increase of investments in renewable energy in the Netherlands, the Dutch government expects a further shortage of EIA deduction in the future (55% in 2017 to 54.5% in 2018 and 49% in 2019). However, the EIA budget does increase in 2019 (from euro 151 million in 2013 it decreased to euro 101 million in 2017 and increased to euro 147 in 2019). In the national Energy Agreement it has been agreed that the EIA will primarily be focused on energy-efficiency investments. Further, a renewable energy project that is eligible for an SDE+ subsidy is not eligible for the EIA tax advantage (this only relates to new projects and projects who have already obtained rights to tax advantages will maintain them). As compensation, the SDE+ budget has been increased by the Dutch government over the years (see above).

A permit under the Dutch Environmental Permitting Act (“*Wet algemene bepalingen omgevingsrecht*”) is required to operate a waste treatment facility in the Netherlands. In addition to this permit, other permits, such as a permit pursuant to the Water Act (“*Waterwet*”) and the Nature Protection Act (“*Wet natuurbescherming*”) and under local Ordinances (“*Algemene Plaatselijke Verordening*”), could be required. The need for these permits depends on the (physical) scale of the waste treatment facility and its impact on the nearby environment. A permit is issued without a time limit. However, changing circumstances (new operational activities on-site or new developments nearby) may require the permit to be revised. As a reaction to significant violations of permit restrictions and/or regulations, the authorities may withdraw a permit.

The operation of a waste treatment facility must also be in line with the designated use in the applicable zoning plan. In case the facility is not in line with the zoning plan, either the zoning plan has to be adapted or a permit has to be obtained under the Environmental Permitting Act, allowing deviation from the applicable designated use. New zoning plans may make an end to the designated use that allows an existing facility. However, in that case it is obligatory to include transitory rules that allow continuation (but not expansion) of existing operations.

Pumped Storage project in the Manara Cliff in Israel

General

The development of the Manara PSP began in 2007, and the Manara PSP, which was under different ownership at the time, was granted a conditional license in 2009 for a capacity of 200 MW, or the First Conditional License. The First Conditional License expired in 2011 and thereafter the previous owner applied for a new conditional license, but before the application was approved, the Israeli Electricity Authority rendered a decision, in 2012, prohibiting cross ownership in pumped storage projects (at the time, the then-owner of Manara PSP was also a shareholder in the Gilboa PSP), thus forcing the sale of Manara PSP to a new owner.

In January 2014, we entered into an agreement with Ortam Sahar Engineering Ltd., or Ortam, an Israeli publicly traded company, pursuant to which we acquired (a) Ortam’s holdings (24.75%) in Agira Sheuva Electra, L.P., or the Partnership, an Israeli limited partnership that had been promoting the Manara PSP; and (b) Ortam’s holdings: (i) in Chashgal Elyon Ltd., or the GP, an Israeli private company, which is the general partner in the Partnership (holding 25% in the Partnership), and (ii) in the engineering, procurement and construction contractor of the aforementioned project (50%). On May 20, 2014 our indirectly wholly-owned subsidiary, Ellomay Manara (2014) Ltd., or Ellomay Manara, entered into an agreement, or the Electra Agreement, with Electra Ltd., or Electra, an Israeli publicly traded company. Pursuant to the Electra Agreement, Ellomay Manara acquired Electra’s holdings (24.75%) in the Partnership, as well as Electra’s holdings in the GP (25%).

In addition, we, Ellomay Manara and Electra agreed that: (i) on the closing date of the transactions contemplated under the Electra Agreement, Ellomay Manara shall transfer to subsidiaries of Electra all of its then holdings in the engineering, procurement and construction contractor of the aforementioned project, or the EPC, (50%), which will be acquired at closing by us from another partner in the Partnership pursuant to a conditional agreement we entered into, resulting in Electra's subsidiaries holding 100% of the EPC; and (ii) each of Electra (through its subsidiaries) and us (together with Ellomay Manara) was granted an eighteen-month put option and call option, respectively, with respect to the entire holdings in the EPC.

In addition to the aforementioned agreements, on January 19, 2014 we entered into an agreement with Galilee Development Cooperative Ltd., an Israeli cooperative, or the Cooperative, pursuant to which, subject to the fulfillment of certain conditions, we shall acquire the Cooperative's holdings (24.75%) in the Partnership as well as its holdings in: (i) the GP (25%), and (ii) the EPC (50%).

In November 2014, Ellomay Manara consummated the acquisition of 75% of the limited partnership rights in the Partnership, as well as 75% of the holdings in the GP, from Electra, Ortam and the Cooperative. The remaining 25% of the holdings in the Partnership and in the GP are held by Sheva Mizrakot Ltd., an Israeli private company, or Sheva Mizrakot. We and Ellomay Manara did not pay any consideration upon the acquisition. On the same date, Ellomay Manara acquired Ortam's holdings (50%) in the EPC and, as set forth above, immediately transferred such holdings to a subsidiary of Electra, which, following such transfer now holds 100% of the EPC. According to the various agreements executed in connection with the Manara PSP, we and Ellomay Manara are liable, jointly and severally, to all the monetary obligations set forth in said agreements.

As of December 31, 2018, we paid an amount of approximately NIS 3.4 million (approximately €0.8 million) on account of the consideration upon the acquisition and may be required, if certain conditions and milestones are met (which conditions and milestones have not currently been met), to pay certain parties additional amounts in certain installments, which in the aggregate are not expected to exceed an amount of NIS 39.8 million (approximately €9.3 million).

In August 2016, Ellomay PS, our 75% owned subsidiary, received the Conditional License, for the Manara PSP from the Minister. The Conditional License initially regulated the construction of a pumped storage plant in the Manara Cliff with a capacity of 340 MW. The Conditional License includes several conditions precedent to the entitlement of the holder of the Conditional License to receive an electricity production license. The Conditional License is valid for a period of seventy two (72) months commencing from the date of its approval by the Minister, subject to compliance by Ellomay PS with the milestones set forth therein and subject to the other provisions set forth therein (including a financial closing, the provision of guarantees and the construction of the pumped storage hydro power plant). On December 4, 2017, the Israeli Electricity Authority announced the reduction of the capacity stipulated in the Conditional License issued to Ellomay PS from 340 MW to 156 MW. The reduced capacity is based on the remaining capacity in the PS Quota determined by the Israeli Electricity Authority after deducting the capacity already allocated to two projects that are in more advanced stages than the Manara PSP. In its decision, the Israeli Electricity Authority noted that in the event one of the holders of the conditional licenses reaches financial closing, the Israeli Electricity Authority will commence the process of revoking the other conditional licenses for projects that have not yet reached financial closing, and which exceed the PS Quota. The Israeli Electricity Authority also announced the extension by an aggregate period of six months of the deadline for producing a connection survey in the Conditional License and in Neshet PS's conditional license.

In March 2019, following Ellomay PS's request to extend certain dates and deadlines in the Conditional License granted to it due to the continuation of the planning procedures in the National Infrastructure Committee and the Israel Land Authority, the Israeli Electricity Authority resolved to extend certain deadlines and dates set forth in the Conditional license held by Ellomay PS. The extensions include, among others: (i) an extension of the term of the Conditional License by 24 months to 96 months, (ii) an extension of the deadline for obtaining a building permit by 3 months to 33 months commencing upon the effective date of the Conditional License, and (iii) an extension of the deadline for financial closing by 12 months to 42 months commencing upon the effective date of the Conditional License. The Israeli Electricity Authority's resolution will become effective following the receipt of the approval of the Israeli Minister of National Infrastructures, Energy and Water, or the Minister, and is also subject to the forfeiture of a bank guarantee provided by Ellomay PS in the amount of approximately NIS 2.1 million (approximately €0.5 million) and of an additional amount of approximately NIS 1 million (approximately €0.23 million) out of bank guarantees Ellomay PS will be required to provide in connection with the extension.

In October 2018, Ellomay PS, in which we indirectly own 75% and which is advancing the construction of the Manara PSP, executed a letter of appointment, or the Letter of Appointment, with two companies that are subsidiaries of, and controlled by, Electra Ltd. (TASE: ELTR), or, such subsidiaries together, Electra. The Letter of Appointment provides for the appointment of Electra, on an exclusive basis, as the main contractor for the Manara PSP. The Letter of Appointment provides a contract price of approximately \$300 million, all subject to an indexation mechanism. The parties to the Letter of Appointment undertook to continue their good faith negotiations in order to reach a final form for an Engineering, Procurement and Construction Contract, or an EPC Contract. The Letter of Appointment is effective until September 30, 2019, subject to earlier termination in accordance with its terms. The execution of the EPC Contract is subject to the parties reaching an understanding in connection with open commercial issues, the receipt of requisite corporate approvals and the approval of the financing entity of the Manara PSP. The performance of the EPC Contract is further subject to the financial closing of the Manara PSP, currently expected to happen during the second half of 2019. There is no assurance that the parties to the Letter of Appointment will reach an understanding and execute an EPC Contract or that the Manara PSP will obtain financing on terms acceptable to us or at all.

In December 2018, we executed a settlement agreement, or the A.R.Z. Settlement Agreement, with A.R.Z. Electricity, an Israeli private company that holds 33.33% of Sheva Mizrakot Ltd., which in its turn holds 25% of the company promoting the Manara PSP, in which we hold an indirect 75% interest. The A.R.Z. Settlement Agreement resolves a claim made by A.R.Z. Electricity and Mr. Raanan Aloni against us and our affiliates, in connection with the Manara PSP, and other disputes between such parties concerning the Manara PSP. The A.R.Z. Settlement Agreement provides, inter alia, for the grant to A.R.Z. Electricity of a right to acquire, on financial closing of the Manara PSP (to the extent such financial closing occurs), an additional 6.67% of the Manara PSP. The acquisition by A.R.Z. Electricity of this additional stake in the Manara PSP is subject to the fulfillment of various conditions precedent including, inter alia, the full and timely payment by A.R.Z. Electricity and Raanan Aloni of all their obligations, under all applicable agreements, to the project company and to us and our affiliates, as well as the repayment of all amounts paid by us and our affiliates to the project company, on account of A.R.Z. Electricity's existing (8.33%) and potential additional (6.67%) stake in the Manara PSP, plus interest at a rate of 5% per annum.

Litigation

In September 2016, Ellomay PS filed a petition, or the First Petition, with the Israeli High Court of Justice against the Minister, the Israeli Electricity Authority and Kochav Pumped Storage Ltd., or Kochav PS, the owner of the Kochav Hayarden PSP. The First Petition was filed in connection with the decision of the Israeli Electricity Authority, which was approved by the Minister, to extend the financial closing milestone deadline of the Kochav Hayarden PSP, which received a conditional license for a pumped storage plant with a capacity of approximately 340 MW in 2014. In the Petition, Ellomay PS requested the High Court to order the Israeli Electricity Authority to explain why the extension should not be canceled. If Kochav PS had not received the milestone extension, its conditional license was to be terminated due to non-compliance. Therefore, among its claims, Ellomay PS claimed that as the PS Quota is 800 MW, and there is one 300 MW project that has been allocated a portion of the PS Quota, the extension approved by the Israeli Electricity Authority could irreparably harm Ellomay PS's chances of securing a portion of the PS Quota.

In January 2017, the Israeli High Court of Justice dismissed the Petition.

On March 3, 2017, Ellomay PS filed another petition, or the Second Petition, with the Israeli High Court of Justice against the Minister, the Electricity Authority and Kochav PS. Ellomay PS has also filed concurrently with the Second Petition, a motion for an interim relief, which would prevent the Minister and the Israeli Electricity Authority from granting Kochav PS any approval in connection with its compliance with any milestones stipulated in its conditional license.

The Second Petition was filed in connection with the decision of the Israeli Electricity Authority, dated February 20, 2017, to extend the following milestones deadlines stipulated in Kochav PS's conditional license: (i) financial closing milestone deadline; and (ii) construction period for Kochav PS's project. Kochav PS filed its response to the request for the motion for an interim relief on March 16, 2017. In its response, amongst other claims, Kochav PS requested that if the court granted Ellomay PS's motion for an interim relief, Ellomay PS would be obligated to post a bond in the amount of NIS 10 million in order to cover Kochav PS's damages caused by the interim relief.

The Minister and the Israeli Electricity Authority claimed, amongst other claims, that the motion should be dismissed, as should the Second Petition. In May 2017, the Israeli High Court of Justice dismissed the Second Petition.

In June 2017, the court accepted a motion filed by Kochav PS requesting that the court maintain the NIS 2 million guarantee that was provided by Ellomay PS, due to costs and alleged damages incurred by Kochav PS, and costs incurred by the governmental authorities, and ruled that the guarantee will be maintained by the Court for a period of three months pending a filing of a claim for damages by Kochav Hayarden. According to the ruling, in case a claim will not be filed by Kochav PS within the said three months, the guarantee will be returned to Ellomay PS.

On December 27, 2017, Kochav PS filed a statement of claim against Ellomay PS with the Tel Aviv – Jaffa Magistrate Court claiming damages allegedly caused due to delays in connection with the Second Petition. Kochav PS claims damages in an aggregate amount of approximately NIS 4.2 million (approximately €1.02 million). In April 2018, Ellomay PS submitted a statement of defense and in August 2018 Kochav PS submitted a plea. In addition, the parties reached an arrangement whereby the NIS 2 million guarantee will be returned to Ellomay PS and the shareholders of Ellomay PS provided a commitment to pay Kochav PS any amount ordered by the court to be paid by Ellomay PS up to an amount of NIS 1.9 million (approximately €0.4 million).

Pumped Storage Power Plants

Pumped storage is a form of renewable energy based on hydropower. A pumped storage power plant is capable of generating electric energy on demand, and is one of the oldest technologies used for energy storage. The technology has been in use for more than 100 years, providing over 100,000 MW around the world.

The technology allows storing available energy for later use. The pumped storage technology stores energy during low demand periods and releases it during peak demand periods, thereby utilizing the gap in production costs in order to stabilize the grid's voltage and regulation.

The plant is a hydro-storage system comprised of upper and lower water reservoirs, connected by an underground water pressure pipe: during low demand – pumping water from the lower reservoir for energy storage, and during peak demand – releasing water from the upper reservoir for energy production. The technology utilizes excess manufacturing ability during low demand hours in order to increase supply during peak demand hours, thus providing available reserve to be used by the grid dispatcher during peak and low demand periods.

Pumped storage also allows optimal grid stability functionality by providing a combination of low latency, high power and high energy response (~90 sec).

The need for electricity storage solutions in the Israeli electricity market

The purpose of pumped storage systems is to stabilize the grid's voltage and to create optimization in the management of the electricity grid. The demand for electricity, in the Israeli market as well as in other electricity markets, is influenced by many factors, including the weather, time of day and day of the week, and the rise in the standard of living in Israel.

In order to meet the growing electricity needs in Israel, and being able to provide electricity to consumers, the IEC constantly over-generates energy. The over-generation of energy is the result of using low flexibility energy sources (coal and gas). The demand curve is generally characterized by peak demand, usually in summer afternoons or winter evenings, and low demand during night times. During low demand periods, the majority of energy is produced by base-load plants at relatively cheap production costs, while at peak demand times, more expensive energy sources are added.

In recent years, the use of renewable, volatile energy sources has increased, thus increasing the grid's volatility and the need for storing energy during low-demand hours and releasing it during peak-demand hours.

The Manara PSP

Manara Cliff is located in Northern Israel, south of the town of Kiryat Shmona. According to the current construction plans of the Manara PSP, the plant will be based on water reservoirs built on agricultural land. The upper water reservoir will be located near Kibbutz Manara and the lower water reservoir will be based on an existing reservoir near Kiryat Shmona.

Ellomay Manara entered into land lease option agreements with land owners, in order to secure land use rights for the duration of the construction phase and the commercial operation of the Manara PSP, and a water supply agreement with the Galil Elyon Water Association, in order to secure water supply for the project for the duration of the commercial operation.

Ellomay PS also performed geological and hydrology surveys, and an environmental impact assessment.

We expect to continue promoting the Manara PSP, but we may, for various reasons including changes in the applicable regulation and adverse economic conditions, resolve not to continue the advancement of the Manara PSP without further liability to the other parties under the aforementioned agreements.

Competition

Due to recent changes in the applicable regulation, the Manara PSP will not enter into electricity sale agreements with private customers, but will provide 100% of the plant's available capacity and energy to the System Manager (IEC), pursuant to a power purchase agreement. The System Manager is obligated to purchase availability and energy from any power plant whose commercial operation was approved by the applicable regulation.

The main competitors of the Manara PSP are other entities that are competing for the remaining available portion of the PS Quota, which is currently 156MW. As set forth above, to our knowledge there is currently one other conditional license holder, Neshet PS, promoting a pumped storage power plant in Neshet. The project promoted by Neshet PS was initially granted a conditional license for 220 MW in March 2017, but its capacity was reduced to 156 MW contemporaneously with the reduction of the Conditional License capacity.

Apart from Manara PSP, and the Neshet PSP, there are two pumped storage projects that have already been allocated portions of the PS Quota – the 300 MW Gilboa PSP, and the 344 MW Kochav Hayarden PSP, and therefore do not compete for the remaining available portion of the PS Quota.

Material Effects of Government Regulations on the Manara PSP

The Manara PSP is subject to regulations applicable to energy producers and power plants in general, including the Electricity Market Regulations, and to pumped storage producers in particular. For more information concerning the Israeli electricity market and regulation see "The Israeli Electricity Market; Competition" and "Material Effects of Government Regulations on Dorad's Operations" under "Dori Energy and the Dorad Power Plant" above.

The Manara PSP was announced by the Israeli Government as a national infrastructure project. National Infrastructure Plan 41A (which updated National Infrastructure Plan 41), which establishes the planning principles for the Manara PSP (in a capacity of up to 340 MW) was approved by the Israeli government on January 15, 2018.

Licenses

The Manara PSP was initially granted a conditional license by the Israeli Electricity Authority for the construction of a pumped storage power plant with a capacity of 200 MW, which has expired in 2011.

In August 2016, Ellomay PS received the Conditional License for a capacity of 340 MW. The Conditional License was granted *inter alia*, after the initial development stage, including receiving a feasibility survey from IEC, was finalized. In addition, the Editors Committee of the National Outline Plan #10 approved the increase of capacity to 340 MW.

The Conditional License is valid for a period of seventy two (72) months commencing from the date of its approval by the Minister, subject to compliance by Ellomay PS with the milestones and other provisions set forth therein.

As of the date hereof, Ellomay PS complies with the terms of its Conditions License. Please see under "General" above for details on recent changes to the Conditional License.

The licenses issued by the Israeli Electricity Authority include several milestones, which the license holder has to meet in a timely manner in order to be eligible for a permanent license to produce electricity. In the event the license holder does not meet the milestones, the Israeli Electricity Authority has the authority to revoke the license. One such milestone is the completion of the financial closing. As detailed above, the financial closing for the Manara PSP is subject to, *inter alia*, the availability of a quota. Currently, there remains an available portion of 156 MW, which has not yet been allocated.

In addition to the Conditional License, which is required under the laws and regulations that apply to the electricity sector, the Israeli Water Authority granted to Ellomay PS a water plant license, and approved the water rationing needed for the preliminary filling of the reservoirs prior to commencement of commercial operation, and for the continued operation of the power plant. The water plant license was granted to Ellomay PS in August 2015.

Tariffs

In November 2009, the Israeli Electricity Authority published the regulatory framework for pumped storage power plants, or the PS Regulatory Framework, which has since been amended a few times. The PS Regulatory Framework establishes the following principles:

- Purchase of availability from a licensed private producer;

- Payment for availability, start-ups and dynamic benefits;
- The plant is required to be under the full control of the system manager (currently the IEC);
- Capital and operational tariff for availability – including exchange rate linkage, indexes and interests;
- During the first eighteen years of its operation, the plant shall be entitled to capital and operational tariff; after which and for an additional period of two years, the plant shall be entitled to operational tariff only; and
- Bonuses and fines mechanism, based on standard technical operational parameters.

Material Effects of Government Regulations - General

Investment Company Act of 1940

Regulation under the Investment Company Act governs almost every aspect of a registered investment company's operations and can be very onerous. The Investment Company Act, among other things, limits an investment company's capital structure, borrowing practices and transactions between an investment company and its affiliates, and restricts the issuance of traditional options, warrants and incentive compensation arrangements, imposes requirements concerning the composition of an investment company's board of directors and requires shareholder approval of certain policy changes. In addition, contracts made in violation of the Investment Company Act are void.

An investment company organized outside of the United States is not permitted to register under the Investment Company Act without an order from the SEC permitting it to register and, prior to being permitted to register, it is not permitted to publicly offer or promote its securities in the United States.

We do not believe that our current asset structure results in our being deemed to be an "investment company." Specifically, we do not believe that our holdings in the PV Plants would be considered "investment securities," as we control the PV Plants via wholly-owned subsidiaries, or that our holdings in the Manara PSP or the Talasol Project would be considered "investment securities," as we control the project company. In addition, despite veto and other rights granted to Ludan in certain Approved Projects under the Ludan Agreement, including several rights which effectively require the unanimous consent of all shareholders on several issues central to the business' operation, we believe that our interests in these Approved Projects do not constitute "investment securities" given, among other things, the fact that we currently operate the WtE Projects and our majority shareholder and board membership status in the Approved Projects. We also recently entered into the Ludan Acquisition Agreement with Ludan and its affiliates which, among other things, contemplates our acquisition of Ludan's minority interest in the WtE Projects subject to certain conditions. The current fair value of our holdings in Dori Energy and other relevant assets do not in our judgment exceed 40% of our aggregate assets, excluding our assets held in cash and cash equivalents. If we were deemed to be an "investment company," we would not be permitted to register under the Investment Company Act without an order from the SEC permitting us to register because we are incorporated outside of the United States and, prior to being permitted to register, we would not be permitted to publicly offer or promote our securities in the United States. Even if we were permitted to register, it would subject us to additional commitments and regulatory compliance. Investments in cash and cash equivalents or in other assets that are not deemed to be "investment securities" might not be as favorable to us as other investments we might make if we were not potentially subject to regulation under the Investment Company Act. We seek to conduct our operations, including by way of investing our cash and cash equivalents, to the extent possible, so as not to become subject to regulation under the Investment Company Act. In addition, because we are actively engaged in exploring and considering strategic investments and business opportunities, and in fact have entered the Italian and Spanish photovoltaic power plants markets through controlling investments, we do not believe that we are currently engaged in "investment company" activities or business.

Shell Company Status

Following the consummation of sale of our previous wide format printers business in 2008 and until we commenced our renewable energy business in 2010, we ceased conducting any operating activity and substantially all of our assets consisted of cash and cash equivalents. Accordingly, we may have been deemed to be a “shell company,” defined by Rule 12b-2 promulgated under the Securities Exchange Act of 1934 during such period as (1) a company that has no or nominal operations; and (2) either: (i) no or nominal assets; (ii) assets consisting solely of cash and cash equivalents; or (iii) assets consisting of any amount of cash and cash equivalents and nominal other assets.

Our characterization as a former “shell company” subjects us to various restrictions and requirements under the U.S. Securities Laws. For example, pursuant to the provisions of Rule 144(i) promulgated under the Securities Exchange Act of 1934, shares issued by us at the time we were deemed to be a “shell company” and thereafter can only be resold pursuant to the general provisions of Rule 144 subject to the additional conditions in Rule 144(i), including that we have filed all reports and other materials required to be filed by Section 13 or 15(d) of the Exchange Act, as applicable, during the twelve month period preceding the use of Rule 144 for resale of such shares. This continuing restriction may limit our ability to, among other things, raise capital via the private placement of our shares.

C. Organizational Structure

Our Italian PV Plants are held by the following Italian companies, wholly-owned by Ellomay Luxembourg (a Luxemburg company), which, in turn, is wholly-owned by us: (i) Ellomay PV One S.r.l., (ii) Ellomay PV Two S.r.l., (iii) Ellomay PV Five S.r.l., (iv) Ellomay PV Six S.r.l., (v) Ellomay PV Seven S.r.l (formerly Energy Resources Galatina S.r.l.), (vi) Pedale S.r.l., (vii) Luma Solar S.r.l., (viii) Murgia Solar S.r.l. (ix) Soleco S.r.l. and (x) Technoenergy S.r.l.

Our Spanish PV Plants are held by: (i) Rodríguez I Parque Solar, S.L., (ii) Rodríguez II Parque Solar, S.L., (iii) Seguisolar S.L. and (iv) Ellomay Spain S.L., all wholly-owned by Ellomay Luxembourg Holdings S.à.r.l. The Talasol Project is held by Talasol Solar S.L., wholly-owned by Ellomay Luxembourg Holdings S.à.r.l.

Our Israeli PV Plant is held by Ellomay Talmei Yosef Ltd. (formerly Sun Team Talmei Yosef Ltd.), which is wholly-owned by Ellomay Sun Team Ltd. (formerly Sun Team Ltd.), which, in turn, is wholly-owned by Ellomay Holdings Talmei Yosef Ltd. (formerly Sun Team Group Ltd.), which is wholly-owned by us.

We hold the Dori Energy shares through Ellomay Clean Energy Limited Partnership, an Israeli limited partnership whose general partner is Ellomay Clean Energy Ltd., a company incorporated under the laws of the State of Israel wholly-owned by us.

We hold 51% in the Goor Project and in the Oude Tonge Project through Ellomay Luxemburg. We hold the rights in connection with the Manara PSP through our wholly-owned subsidiary, Ellomay Water Plants Holdings (2014) Ltd., which indirectly owns 75% of the rights in Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd.

D. Property, Plants and Equipment

Our office space of approximately 306 square meters is located in Tel Aviv, Israel. This lease currently expires in September 2020. We sub-lease a small part of our office space to a company controlled by Mr. Shlomo Nehama, at a price per square meter based on the price that we pay under our leases. This sub-lease agreement was approved by our Board of Directors.

The PV Plants are located in Italy, Spain and Israel. Pursuant to the building right agreements executed by our subsidiaries that are PV Principals in connection with the majority of our PV Plants, our subsidiaries own the PV Plants and received the right to maintain the PV Plants on the land on which they are located, or the Lands. The ownership of the Lands under the leasing agreements remains with the relevant owners of the Lands who are the grantors of the building rights under the respective building right agreements. In the case of the Galatina PV Plant our subsidiary owns the land on which the PV Plant is built. The following table provides information with respect to the Lands and the PV Plants:

PV Plant	Size of Property	Location	Owners of the PV Plants/Lands
“Troia 8”	2.42.15 hectares	Province of Foggia, Municipality of Troia, Puglia region	PV Plant owned by Leasint and leased to Ellomay Six S.r.l. / Building right granted to Ellomay PV Six S.r.l. from owners
“Troia 9”	2.39.23 hectares	Province of Foggia, Municipality of Troia, Puglia region	PV Plant owned by Leasint and leased to Ellomay Five S.r.l. / Building right granted to Ellomay PV Five S.r.l. from owners

PV Plant	Size of Property	Location	Owners of the PV Plants/Lands
“Del Bianco”	2.44.96 hectares	Province of Macerata, Municipality of Cingoli, Marche region	PV Plant owned by Ellomay PV One S.r.l./ Building right granted to Ellomay PV One S.r.l. from owners
“Giaché”	3.87.00 hectares	Province of Ancona, Municipality of Filotrano, Marche region	PV Plant owned by Ellomay PV Two S.r.l. / Building right granted to Ellomay PV Two S.r.l. from owners
“Costantini”	2.25.76 hectares	Province of Ancona, Municipality of Senigallia, Marche region	PV Plant owned by Ellomay PV One S.r.l. / Building right granted to Ellomay PV One S.r.l. from owners
“Massaccesi”	3,60,60 hectares	Province of Ancona, Municipality of Arcevia, Marche region	PV Plant owned by Ellomay PV Two S.r.l. / Building right granted to Ellomay PV Two S.r.l. from owners
“Galatina”	4.00.00 hectares	Province of Lecce, Municipality of Galatina, Puglia region	PV Plant and Land owned by Energy Resources Galatina S.r.l.
“Pedale (Corato)”	13.59.52 hectares	Province of Bari, Municipality of Corato, Puglia region	Building Right granted to Pedale S.r.l. that will own the PV Plant once constructed/ Land held by owners and leased to Pedale S.r.l.
“Acquafresca”	3.38.26 hectares	Province of Barletta-Trani, Municipality of Minervino Murge, Puglia region	Building Right granted to Murgia Solar S.r.l. owns the PV Plant. Land held by owners and leased to Murgia Solar S.r.l.

PV Plant	Size of Property	Location	Owners of the PV Plants/Lands
“D’Angella”	3.79.570 hectares	Province of Barletta-Trani, Municipality of Minervino Murge, Puglia region	Building Right granted to Luma Solar S.r.l. that owns the PV Plant. Land held by owners and leased to Luma Solar S.r.l.
“Soleco”	11.56.87 hectares	Province of Rovigo, Municipality of Canaro, Veneto region	Building Right granted to Soleco S.r.l. that owns the PV Plant. Land held by owners and leased to Soleco S.r.l.
“Tecnoenergy”	11.66.78 hectares	Province of Rovigo, Municipality of Canaro, Veneto region	Building Right granted to Tecnoenergy S.r.l. that owns the PV Plant. Land held by owners and leased to Tecnoenergy S.r.l.
“Rinconada II”	81,103 m ²	Municipality of Córdoba, Andalusia, Spain	Building Right granted to Ellomay Spain S.L. that owns the PV Plant. Land held by owners and leased to Ellomay Spain S.L.
“Rodríguez I”	65,600 m ²	Lorca Municipality, Murcia Region	Lease Agreement executed with owners.
“Rodríguez II”	50,300 m ²	Lorca Municipality, Murcia Region	Lease Agreement executed with owners.
“Fuente Librilla”	64,000 m ²	Fuente Librilla Municipality, Murcia Region	Lease Agreement executed with owners.
“Talmei Yosef”	164,000 m ²	Talmei Yosef, Israel	Lease Agreement executed with the entity that leased the property from the Israel Land Authority.

The land on which our WtE Projects are located is owned by the relevant project companies.

For more information concerning the use of the properties in connection with the PV Plants and the WtE Projects, see “Item 4.A: History and Development of Ellomay” and “Item 4.B: Business Overview” above.

ITEM 4A: Unresolved Staff Comments

Not Applicable.

ITEM 5: Operating and Financial Review and Prospects

The following discussion and analysis is based on and should be read in conjunction with our consolidated financial statements, including the related notes, and the other financial information included in this report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this report.

A. Operating Results

General

We are involved in the production of renewable and clean energy. We own seventeen PV Plants that are operating and connected to their respective national grids as follows: (i) twelve photovoltaic plants in Italy with an aggregate installed capacity of approximately 22.6 MWp, (ii) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp and (iii) one photovoltaic plant in Israel with an installed capacity of approximately 9 MWp. In addition, we indirectly own: (i) 9.375% of Dorad, which owns an approximate 850 MWp bi-fuel operated power plant in the vicinity of Ashkelon, Israel, (ii) 51% of Groen Gas Goor B.V and of Groen Gas Oude-Tonge B.V., project companies operating anaerobic digestion plants with a green gas production capacity of approximately 375 Nm³/h, in Goor, the Netherlands and 475 Nm³/h, in Oude Tonge, the Netherlands, respectively, (iii) Talasol, which is involved in a project to construct a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain, and (iv) 75% of Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd., all of which are involved in a project to construct a 156 MW pumped storage hydro power plant in the Manara Cliff, Israel. See “Item 4.A: History and Development of Ellomay” and “Item 4.B: Business Overview” for more information.

IFRS

Our financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the IASB, which differ in certain significant respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP.

Presentation Currency

Effective December 31, 2017, we changed the presentation currency of our consolidated financial statements from the US dollar to the euro to better reflect the profile of our assets, revenues, costs and cash flows, which are primarily generated in euro, and hence, to better present our financial performance. All comparative financial information has been restated into euro in this report.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 2 to our consolidated financial statements. Certain accounting principles require us to make certain estimates, judgments and assumptions that affect the reported amounts recognized in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. The changes in accounting estimates are recognized in the period of the change in estimate. The key assumptions made in the financial statements concerning uncertainties at the balance sheet date and the critical estimates that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the following:

Fair value measurement of non-trading derivatives

Within the scope of the valuation of financial assets and derivatives not traded on an active market, management makes assumptions about inputs used in the valuation models. For information on a sensitivity analysis of levels 2 and 3 financial instruments carried at fair value.

Recognition of deferred tax asset in respect of tax losses

The probability that in the future there will be taxable profits against which carried forward losses can be utilized.

Assessment of probability of contingent liabilities

Whether it is more likely than not that an outflow of economic resources will be required in respect of legal claims pending against the Company and its investees.

Business combination

Fair value of assets and liabilities acquired in a business combination. See Note 6 regarding subsidiaries.

Segments

In view of our recent entry into additional operations such as WtE in the Netherlands resulting in separate segment reporting reviewed and analyzed by our CODM, we commenced presenting the results of its reportable segments on January 1, 2018. Comparison figures are presented accordingly. Our reportable segments, which form our strategic business units, are as follows: (i) photovoltaic power plants presented per geographical areas (Italy, Spain and Israel), (ii) 9.375% indirect interest in Dorad, (iii) anaerobic digestion plants (Bio Gas) in the Netherlands and (iv) pumped storage hydro power plant in Manara, Israel. For more information see Note 22 to our annual financial statements included elsewhere in this report.

Results of Operations

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Revenues were approximately €18.1 million for the year ended December 31, 2018, compared to approximately €13.6 million for the year ended December 31, 2017. The increase in revenues is mainly a result of the commencement of operations of our two WtE Projects in the Netherlands (one in November 2017 and the other in June 2018) and the results for a full year of the Talmei Yosef PV Plant, acquired in October 2017, partially offset by lower revenues in Italy due to relatively lower radiation levels in the year ended December 31, 2018 compared to the year ended December 31, 2017.

Italian PV Segment. Revenues from our Italian PV segment were approximately €9.6 million for the year ended December 31, 2018, compared to approximately €10.1 million for the year ended December 31, 2017. The decrease is mainly due to relatively lower radiation levels in Italy during 2018 compared to 2017.

Spanish PV Segment. Revenues from our Spanish PV segment were approximately €3 million for each of the years ended December 31, 2018 and 2017.

Israeli PV Segment. The segment results for our PV Plant located in Israel are presented under the fixed asset model and not under the IFRIC 12 financial asset model as applied in our financial statements. Proceeds for electricity produced by our Israeli PV segment were approximately €3.8 million for the year ended December 31, 2018, compared to approximately €1.4 million for the year ended December 31, 2017. As the Talmei Yosef project was acquired in October 2017, the results for the year ended December 31, 2017 only include the period commencing on the acquisition.

Dorad Segment. The segment results for Dorad are presented as our share in the results of Dorad in NIS translated into euro and not under the equity method (equity accounted investee) as applied in our financial statements. Our share in the revenues of Dorad was approximately €58.1 million (approximately NIS 246.4 million) for the year ended December 31, 2018, compared to approximately €58.2 million (approximately NIS 236.6 million) for the year ended December 31, 2017. The increase in Dorad's NIS denominated revenues is mainly due to increased electricity production sold to Dorad's customers for the year ended December 31, 2018. The decrease in Dorad's revenues translated into euro is a result of the increase of the euro/NIS exchange rate during the year ended December 31, 2018 (average euro/NIS exchange rate of 4.244) compared to the year ended December 31, 2017 (average euro/NIS exchange rate of 4.062).

Netherlands Biogas Segment. Revenues from our Netherlands biogas segment were approximately €4.5 million for the year ended December 31, 2018, compared to approximately €0.3 million for the year ended December 31, 2017. The increase is due to the commencement of operations of our two waste-to-energy projects in the Netherlands during November 2017 and June 2018.

Operating expenses were approximately €6.3 million for the year ended December 31, 2018, compared to approximately €2.5 million for the year ended December 31, 2017. The increase in operating expenses is mainly attributable to additional operating expenses resulting from the commencement of operations of our WtE Projects in the Netherlands, as WtE operations are characterized by higher operating expenses compared to PV operations, resulting from the components of raw materials and the costs of waste removal, and from the acquisition of the Talmei Yosef PV Plant. Depreciation expenses were approximately €5.8 million for the year ended December 31, 2018, compared to approximately €4.5 million for the year ended December 31, 2017.

Italian PV Segment. Operating expenses in connection with our Italian PV segment were approximately €1.6 million for the year ended December 31, 2018, compared to approximately €1.7 million for the year ended December 31, 2017. The decrease is mainly due to insurance indemnification received in 2018 by one of our Italian subsidiaries that partially offset the operating expenses.

Spanish PV Segment. Operating expenses in connection with our Spanish PV segment were approximately €0.6 million for the year ended December 31, 2018 compared to approximately €0.7 million for the year ended December 31, 2017.

Israeli PV Segment. Operating expenses in connection with our Israeli PV segment were approximately €0.5 million for the year ended December 31, 2018, compared to approximately €0.1 million for the year ended December 31, 2017. The increase is due to the acquisition of the Talmei Yosef project in October 2017.

Dorad Segment. The segment results for Dorad are presented as our share in the results of Dorad in NIS translated into euro and not under the equity method (equity accounted investee) as applied in our financial statements. Operating expenses in connection with our Dorad segment were approximately €44.6 million (approximately NIS 189.3 million) for the year ended December 31, 2018, compared to approximately €5 million (approximately NIS 182.9 million) for the year ended December 31, 2017. The increase in Dorad's NIS denominated operating expenses is mainly due to increased production and an increase in the price of natural gas resulting from an increase in the USD/NIS exchange rate during the year ended December 31, 2018 (USD/NIS exchange rate as of December 31, 2018 was 3.748 compared to 3.467 as of December 31, 2017). The decrease in Dorad's operating expenses translated into euro is a result of the increase of the euro/NIS exchange rate during the year ended December 31, 2018 (average euro/NIS exchange rate of 4.244) compared to the year ended December 31, 2017 (average euro/NIS exchange rate of 4.062).

Netherlands Biogas Segment. Operating expenses in connection with our Netherlands biogas segment were approximately €3.6 million for the year ended December 31, 2018, compared to approximately €0.1 million for the year ended December 31, 2017. The increase is due to the commencement of operations of our two WtE Projects in the Netherlands during November 2017 and June 2018.

Project development costs were approximately €2.9 million for the year ended December 31, 2018, compared to approximately €2.7 million for the year ended December 31, 2017. The increase in project development costs is mainly attributable to consultancy expenses in connection with the Talasol Project.

General and administrative expenses were approximately €3.6 million for the year ended December 31, 2018, compared to approximately €2.4 million for the year ended December 31, 2017. The increase in general and administrative expenses resulted mainly from payment of approximately €0.4 million pursuant to a VAT assessment agreement from previous years in Israel and related expenses and from increased expenses resulting from the commencement of operations of our WtE Projects in the Netherlands and the acquisition of the Talmei Yosef PV Plant.

Our share of profits of equity accounted investee, after elimination of intercompany transactions, was approximately €2.5 million in the year ended December 31, 2018, compared to approximately €1.5 million in the year ended December 31, 2017. The increase in the Company's share of profit of equity accounted investee is mainly attributable to an increase in sales of electricity by Dorad due to increased production and to lower financial expenses incurred by Dorad as a result of the CPI indexation of loans from banks and related parties.

Other income, net was approximately €0.9 million in the year ended December 31, 2018, compared to approximately €0.02 million in the year ended December 31, 2017. The increase is mainly attributable to compensation from an EPC and O&M contractor, in the aggregate amount of approximately €0.8 million, due to deficiencies in the operations of our WtE Projects.

Financing expenses, net was approximately €2.1 million for the year ended December 31, 2018, compared to approximately €9.2 million for the year ended December 31, 2017. The decrease in financing expenses was mainly due to: (i) the reevaluation of the Company's euro/US\$ forward transactions and marketable securities in the aggregate profit amount of approximately €0.5 million for the year ended December 31, 2018, compared to a loss of approximately €3.2 million for the year ended December 31, 2017, and (ii) income in connection with exchange rate differences amounting to approximately €0.7 million in the year ended December 31, 2018, mainly in connection with the NIS denominated Debentures, compared to expenses in the amount of approximately €3.6 million in the year ended December 31, 2017, mainly in connection with US dollar denominated cash and marketable securities, resulting from exchange rate differences caused by the 14% revaluation of the euro against the US\$ during 2017. Following the change of presentation currency in 2017, we converted the majority of our cash and marketable securities from US dollar to euro.

Taxes on income were approximately €0.2 million in the year ended December 31, 2018, compared to approximately €0.4 million in the year ended December 31, 2017. This decrease in taxes on income compared to the corresponding period in 2017 resulted mainly from the application of a tax incentive in the Netherlands applicable for companies that invest in energy-efficient technology, claimable upon filing the relevant tax return by reducing the amount of taxable profit.

Net profit was approximately €0.6 million in the year ended December 31, 2018, compared to net loss of approximately €6.6 million for the year ended December 31, 2017.

Total other comprehensive loss was approximately €1.2 million for the year ended December 31, 2018, compared to total other comprehensive loss of approximately €0.2 million in the year ended December 31, 2017. The change was mainly due to changes in fair value of cash flow hedges and from foreign currency translation differences on New Israeli Shekel denominated operations, as a result of fluctuations in the euro/NIS exchange rates.

Total comprehensive loss was approximately €0.5 million in the year ended December 31, 2018, compared to total comprehensive loss of approximately €6.9 million in the year ended December 31, 2017.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Revenues were approximately €13.6 million for the year ended December 31, 2017, compared to approximately €11.6 million for the year ended December 31, 2016. The increase in revenues is mainly a result of higher spot rates and higher radiation levels in Italy and Spain during the year ended December 31, 2017 compared to the year ended December 31, 2016, as 2016 was characterized by low levels of radiation. In addition, the revenues for 2017 reflect the commencement of operations of a waste-to-energy project in the Netherlands and the results of the Talmei Yosef PV Plant since the acquisition date.

Italian PV Segment. Revenues from our Italian PV segment were approximately €10.1 million for the year ended December 31, 2017, compared to approximately €8.9 million for the year ended December 31, 2016. The increase is mainly due to relatively high radiation levels in Italy during 2017 compared to 2016.

Spanish PV Segment. Revenues from our Spanish PV segment were approximately €3 million for the year ended December 31, 2017, compared to approximately €2.7 million for the year ended December 31, 2016. The increase is mainly due to relatively high radiation levels in Spain during 2017 compared to 2016.

Israeli PV Segment. The segment results for our PV Plant located in Israel are presented under the fixed asset model and not under the IFRIC 12 financial asset model as applied in our financial statements. Proceeds for electricity produced by our Israeli PV segment were approximately €0.2 million for the year ended December 31, 2017, compared to 0 for the year ended December 31, 2016, as the Talmei Yosef PV Plant was acquired in October 2017.

Dorad Segment. The segment results for Dorad are presented as our share in the results of Dorad in NIS translated into euro and not under the equity method (equity accounted investee) as applied in our financial statements. Our share in the revenues of Dorad was approximately €52.2 million (approximately NIS 236.6 million) for the year ended December 31, 2017, compared to approximately €50.7 million (approximately NIS 215.6 million) for the year ended December 31, 2016. The increase in Dorad's NIS denominated revenues is mainly due to increased electricity production sold to Dorad's customers for the year ended December 31, 2017.

Netherlands Biogas Segment. Revenues from our Netherlands biogas segment were approximately €0.3 million for the year ended December 31, 2017, compared to 0 for the year ended December 31, 2016, as our first WtE Project commenced operations in November 2017.

Operating expenses were approximately €2.5 million for the year ended December 31, 2017, compared to approximately €2.1 million for the year ended December 31, 2016. The increase in operating expenses is mainly attributable to an insurance indemnification received in 2016 that partially offset operating expenses for that year and to additional operating expenses resulting from the commencement of operations of a WtE project in the Netherlands and from the acquisition of the Talmei Yosef project. Depreciation expenses were approximately €4.5 million for the year ended December 31, 2017, compared to approximately €4.4 million for the year ended December 31, 2016.

Italian PV Segment. Operating expenses in connection with our Italian PV segment were approximately €17 million for the year ended December 31, 2017, compared to approximately €1.5 million for the year ended December 31, 2016. The increase is mainly due to an insurance indemnification received in 2016 that partially offset operating expenses for that year.

Spanish PV Segment. Operating expenses in connection with our Spanish PV segment were approximately €0.7 million for the year ended December 31, 2017, compared to approximately €0.6 million for the year ended December 31, 2016.

Israeli PV Segment. Operating expenses in connection with our Israeli PV segment were approximately €0.1 million for the year ended December 31, 2017, compared to 0 for the year ended December 31, 2016, as the Talmei Yosef PV Plant was acquired in October 2017.

Dorad Segment. The segment results for Dorad are presented as our share in the results of Dorad in NIS translated into euro and not under the equity method (equity accounted investee) as applied in our financial statements. Operating expenses in connection with our Dorad segment were approximately €45 million (approximately NIS 182.9 million) for the year ended December 31, 2017, compared to approximately €39.6 million (approximately NIS 168.4 million) for the year ended December 31, 2016. The increase in Dorad's operating expenses is mainly due to increased production and increased production costs resulting among other things from the use of diesel.

Netherlands Biogas Segment. Operating expenses in connection with our Netherlands biogas segment were approximately €0.1 million for the year ended December 31, 2017, compared to 0 for the year ended December 31, 2016, as our first WtE Project commenced operations in November 2017.

Project development costs were approximately €2.7 million for the year ended December 31, 2017, compared to approximately €2.2 million for the year ended December 31, 2016. The increase in project development costs is mainly attributable to consultancy expenses in connection with the acquisition of the Talmei Yosef PV Plant in October 2017 and expenses in connection with the Talasol Project.

General and administrative expenses were approximately €2.4 million for the year ended December 31, 2017, compared to approximately €2 million for the year ended December 31, 2016. The increase in general and administrative expenses resulted mainly from adjustments in 2016 made in connection with dissolutions of non-operating subsidiaries that reduced 2016 general and administrative expenses and from increased expenses in 2017 resulting from the commencement of operations of a waste-to-energy project in the Netherlands and the acquisition of the Talmei Yosef PV Plant.

Our share of profits of equity accounted investee, after elimination of intercompany transactions, was approximately €1.5 million in the year ended December 31, 2017, compared to approximately €1.4 million in the year ended December 31, 2016. The increase in the Company's share of profit of equity accounted investee is mainly attributable to an increase in sales of electricity to Dorad's customers, resulting in an increase in operating profit, partially offset by legal expenses incurred by Dori Energy in connection with legal proceedings in which Dorad's shareholders are involved.

Other income, net was approximately €0.02 million in the year ended December 31, 2017, compared to approximately €0.09 million in the year ended December 31, 2016. Other income was primarily attributable to the revaluation of financial asset for A.R.Z. electricity pumped storage project.

Financing expenses, net was approximately €9.2 million for the year ended December 31, 2017, compared to approximately €2.4 million for the year ended December 31, 2016. The increase in financing expenses was mainly due to: (i) the reevaluation of the Company's euro/US\$ forward transactions and marketable securities in the aggregate loss amount of approximately €3.2 million for the year ended December 31, 2017, compared to a profit of approximately €0.6 million for the year ended December 31, 2016, and (ii) expenses in connection with exchange rate differences amounting to approximately €3.6 million in the year ended December 31, 2017, mainly in connection with US dollar denominated cash and marketable securities, resulting from exchange rate differences caused by the 14% revaluation of the euro against the US\$ during 2017, compared to approximately €0.1 million for the year ended December 31, 2016. Following the change of presentation currency, we converted the majority of our cash and marketable securities from US dollar to euro.

Taxes on income were approximately €0.37 million in the year ended December 31, 2017, compared to approximately €0.57 million in the year ended December 31, 2016. This decrease in taxes on income compared to the corresponding period in 2016 resulted mainly from the adjustment of a provision in connection with estimated tax liabilities, partially offset by expenses resulting from the decrease of loss carry forwards for several of the Company's Italian subsidiaries following a tax inspection.

Net loss for the year was approximately €6.6 million in the year ended December 31, 2017, compared to approximately €0.6 million for the year ended December 31, 2016.

Total other comprehensive loss was approximately €0.2 million for the year ended December 31, 2017, compared to total other comprehensive income of approximately €0.7 million in the year ended December 31, 2016. The change was mainly due to changes in fair value of cash flow hedges and from foreign currency translation differences on New Israeli Shekel denominated operations, as a result of fluctuations in the euro/NIS exchange rates.

Total comprehensive loss was approximately €6.9 million in the year ended December 31, 2017, compared to total comprehensive loss of approximately €0.06 million in the year ended December 31, 2016.

Impact of Inflation and Fluctuation of Currencies

The annual rate of inflation in Israel was deflation of 0.2% in the year ended December 31, 2016, inflation of 0.4% in the year ended December 31, 2017 and inflation of 0.8% in the year ended December 31, 2018.

We hold cash and cash equivalents, marketable securities and restricted cash in various currencies, mainly in euro and NIS. Our investments in our Italian and Spanish PV Plants, in the WtE Projects and in the Talasol Project are denominated in euro and our investments in Dori Energy, in the Talmei Yosef PV Plant and in Manara PSP are denominated in NIS. Our Debentures are denominated in NIS and the interest and principal payments are made in NIS, the financing of the Talmei Yosef PV Plant is denominated in NIS and the financing we have obtained in connection with five of our PV Plants is denominated in euro and bears interest that is based on EURIBOR rate. Due to the change in our presentation currency, effective December 31, 2017, from the U.S. dollar to the euro, we translated past financial results into euro as more fully described in Note 2 to our financial statements included elsewhere in this report. We therefore are affected by changes in the prevailing euro/NIS exchange rates and previously, prior to the change in our presentation currency were affected by changes in the prevailing euro/U.S. dollar and euro/NIS exchange rates. We entered into various swap transactions to minimize our currency risks. We cannot predict the rate of appreciation/depreciation of the NIS against the euro in the future, and whether these changes will have a material adverse effect on our finances and operations.

The table below sets forth the annual rates of depreciation of the NIS against the euro.

	Year ended December 31,		
	2018	2017	2016
Appreciation (Devaluation) of the NIS against the euro	3.3%	2.7%	(4.8)%

The representative NIS/euro exchange rate was NIS 4.044 for one euro on December 31, 2016, NIS 4.153 for one euro on December 31, 2017 and NIS 4.292 for one euro on December 31, 2018. The average exchange rates for converting the NIS to euro during the years ended December 31, 2016, 2017 and 2018 were NIS 4.250, 4.063 and 4.244 for one euro, respectively. The representative exchange rate as of March 1, 2019 was NIS 4.115 for one euro.

Our management determined that our functional currency is the euro and elected the euro as our reporting currency, effective December 31, 2017.

Items included in the financial statements of each of our subsidiaries and investees are measured using their functional currency. When a company's functional currency differs from its parent's functional currency that entity represents a foreign operation whose financial statements are translated so that they can be included in the consolidated financial statements as follows:

The assets and liabilities of foreign operations, including adjustments arising on acquisition, are translated at exchange rates at the reporting date. The income and expenses for each period presented in the statement of profit or loss and other comprehensive income (loss) are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions. Foreign currency differences are recognized in equity as a separate component of other comprehensive income (loss) under "foreign currency translation adjustments".

For information concerning hedging transactions entered, see “Item 11: Quantitative and Qualitative Disclosures About Market Risk.”

Governmental Economic, Fiscal, Monetary or Political Policies or Factors that have or could Materially Affect our Operations or Investments by U.S. Shareholders

Governmental Regulations Affecting the Operations of our PV Plants and other Facilities

Our PV Plants and other energy manufacturing facilities are subject to comprehensive regulation and we sell the electricity and energy produced for rates determined by governmental legislation and to local governmental entities. Any change in the legislation that affects facilities such as our facilities could materially adversely affect our results of operations. A continued economic crisis in Europe and specifically in Italy and Spain or continued financial distress of the IEC could cause the applicable legislator to reduce benefits provided to operators of PV plants or other privately-owned energy manufacturing facilities or to revise the incentive regimes that currently governs the sale of electricity in Italy, Spain and Israel. For more information see “Item 3.D: Risk Factors - Risks Related to our Renewable Energy Operations,” “Item 3.D: Risk Factors - Risks Related to our Investment in Dori Energy,” “Item 3.D: Risk Factors - Risks Related to our Other Operations”, “Item 4.B: Material Effects of Government Regulations on the PV Plants,” “Item 4.B: Material Effects of Government Regulations on Dorad’s Operations,” “Item 4.B: The Netherlands Waste-to-Energy Market and Regulation” and “Item 4.B: Material Effects of Government Regulations on The Manara PSP.”

Effective Israeli Corporate Tax Rate

Israeli companies are generally subject to company tax on their taxable income. The Israeli corporate tax rate was reduced from 26.5% to 25% as of January 1, 2016. On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016. Furthermore, on December 22, 2016, the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, *inter alia*, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step was a rate of 24% as from January 2017 and the second step was a rate of 23% as from January 2018.

As of December 31, 2018, we had tax loss carry-forwards in the amount of approximately NIS 89 million (approximately €20.8 million). Under current Israeli tax laws, tax loss carry-forwards do not expire and may be offset against future taxable income. The amount of tax loss carry-forwards is subject to tax inspections and final assessments of settlements with the tax authorities. During 2018, following a tax inspection and a final settlement reached with the tax authorities, we reduced the carry forward tax losses by approximately €17 million.

B. Liquidity and Capital Resources

General

As of March 1, 2019, we held approximately €29.8 million in cash and cash equivalents, approximately €0.4 million in marketable securities and approximately €6.9 million in restricted short-term and long-term cash.

Although we now hold the aforementioned funds, we may need additional funds if we seek to acquire certain new businesses and operations and if we seek to advance large development projects that require substantial funds. If we are unable to raise funds through public or private financing of debt or equity, we will be unable to fund certain projects, investments or business combinations that could ultimately improve our financial results. We cannot ensure that additional financing will be available on commercially reasonable terms or at all.

We entered into various project finance agreements in connection with the financing of several of our Italian PV Plants (all as more fully described below). In January 2014 and June 2014 we issued the Series A Debentures and in March 2017 we issued the Series B Debentures, all as more fully described below. In addition, the Talmei Yosef PV Plant has project financing as more fully described below. We currently have no agreements, commitments or understandings for additional financing, however we intend to finance the remainder of our PV Plants by bank loans or other means of financing and will require additional funds in order to advance the Talasol Project and the Manara PSP.

As of December 31, 2018, we had working capital of approximately €39 million, compared to working capital of approximately €31.3 million as of December 31, 2017. In our opinion, our working capital is sufficient for our present requirements.

We currently invest our excess cash in cash and cash equivalents that are highly liquid and in short term deposits and marketable securities.

As of December 31, 2018, we had approximately €36.9 million of cash and cash equivalents, compared with approximately €24 million of cash and cash equivalents at December 31, 2017 and approximately €22.5 million of cash and cash equivalents at December 31, 2016. The increase in cash during the year ended December 31, 2018 was mainly due to the execution of the project finance with respect to five of our Italian subsidiaries. The increase in cash during the year ended December 31, 2017 was mainly due to the issuance of our Series B Debentures in March 2017, partially offset by payments made in connection with the acquisition of the Talmei Yosef PV Plant, acquisition of fixed assets in connection with the Waste-to-Energy projects in the Netherlands net of project financing amounts, advances on account of the Talasol Project and acquisition of marketable securities.

Project Finance

We are currently party to project finance agreements in connection with several of our PV Plants and in connection with our WtE Projects and may in the future exercise additional project finance agreements with respect to one or more of our other facilities. The following is a brief description of the project finance agreements that existed during the year ended December 31, 2018.

Leasint

In December 2010, Ellomay PV Five S.r.l. and Ellomay PV Six S.r.l., our wholly-owned Italian subsidiaries that are the PV Principal for the Troia 9 and Troia 8 PV Plants, respectively, entered into Financial Leasing Agreements, or the Leasing Agreements, with Leasint S.p.A., or Leasint.

Pursuant to the Leasing Agreements, each of Ellomay PV Five and Ellomay PV Six sold the PV Plants owned by them for an aggregate of euro 3.795 million before applicable VAT (such amount included payments to the EPC Contractors) and Leasint, in turn, leases the PV Plant to each of these entities in consideration for (i) a down-payment equal to approximately 21% of the consideration and (ii) monthly payments of approximately euro 20,000 commencing 210 days following the transfer of ownership of the relevant PV Plant to Leasint, for the duration of the Leasing Agreement (17 years), representing a nominal annual interest rate of 3.43%. The monthly payments are linked to the 3-month EURIBOR (Euro Interbank Offered Rate). At the end of term of the Leasing Agreement, each of the respective subsidiaries has the option to purchase the PV Plant from Leasint for 1% of the consideration.

The Leasing Agreements provide that the PV Principals shall be responsible and liable to Leasint for the acceptance of the plant and for the adherence with applicable laws, and the PV Principals shall undertake any risk in connection with the PV Plant, including, *inter alia*, the operation and the maintenance of the PV system. The Leasing Agreements also include indemnification undertakings towards Leasint and further provides Leasint with the rights to independently verify the correct performance of the works.

The Leasing Agreements may not be assigned by the PV Principals. In connection with the Leasing Agreements, the relevant PV Principals assigned their rights to receive credits from GSE to Leasint (to be used for payment of the monthly installments).

In connection with the Leasing Agreements, Ellomay Luxemburg, our wholly-owned subsidiary and the parent company of Ellomay PV Five and Ellomay PV Six, (i) undertook not to transfer its holdings in these companies without the prior written consent of Leasint, (ii) provided a pledge on the shares it holds in such companies in favor of Leasint in order to guarantee the obligations of these companies under the respective Leasing Agreement and (iii) agreed to subordinate any receivables it may be entitled to receive from these companies. In connection with the Leasing Agreements and the foregoing undertakings by Ellomay Luxemburg, we undertook not to transfer more than 20% of our holdings of Ellomay Luxemburg without the prior written consent of Leasint.

The Leasing Agreements were terminated in May 2018 and all finance lease obligations were repaid.

Centrobanca (acquired by UBI in 2013)

In February 2011, Ellomay PV One S.r.l., our wholly-owned Italian subsidiary that is the PV Principal for the Del Bianco and Costantini PV Plants, entered into a project finance facilities credit agreement, or the Finance Agreement, with Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A., or Centrobanca.

Ellomay PV One currently has an outstanding Senior Loan that accrues interest at the EURIBOR rate, increased by a margin of 200 basis points per annum, repaid semi-annually with a maturity date of December 31, 2027. The Finance Agreement provides for a default interest that will accrue upon the occurrence of certain events, including a delay in payments, acceleration, termination and withdrawal. The outstanding loans may be prepaid on predetermined dates, upon payment of a fee equal to 2% of the prepaid amount. The Finance Agreement also provides for mandatory prepayment upon the occurrence of certain events, including in the event the present value of cash flow available for debt services/debt outstanding (the Loan Life Coverage Ratio) is lower than a pre-determined ratio and in the event of a change of more than 49% of the ownership of Ellomay PV One (unless Centrobanca resolves to maintain the financing in force based on the identity and undertakings of the new shareholder). The Finance Agreement includes various customary representations, warranties and covenants, including covenants to maintain certain financial ratios.

No amount re-paid or pre-paid under the Finance Agreement may be re-borrowed by Ellomay PV One. Ellomay PV One may not transfer any of the credits or other rights or obligations under the Finance Agreement without the prior consent of Centrobanca.

In connection with the Finance Agreement, Ellomay PV One provided securities to Centrobanca, including a mortgage on the PV Plants and an assignment of receivables deriving from the project contracts (including the agreements with GSE) and VAT credits (to be used for repayment of the outstanding loans).

In connection with the Finance Agreement, Ellomay Luxembourg, our wholly-owned subsidiary and the parent company of Ellomay PV One (i) provided a pledge on the shares it holds in this company in favor of Centrobanca in order to guarantee the obligations of this company under the Finance Agreement and related documents, (ii) agreed to the subordination of any receivables it may be entitled to receive from these companies and (iii) entered into an equity contribution agreement with Ellomay PV One. In connection with the Finance Agreement and the foregoing undertakings by Ellomay Luxembourg, we undertook to Ellomay Luxembourg that for so long as we remain its sole shareholder and Ellomay Luxembourg remains the sole shareholder of the Ellomay PV One and if it does not have sufficient funds, we will provide it with sums necessary to enable Ellomay Luxembourg to contribute equity to Ellomay PV One in order to, *inter alia*, cover part of the costs of the PV Project and ensure that the Debt/Equity Ratio meets the requirements of the Finance Agreement.

As of December 31, 2018, the outstanding amounts under the Finance Agreement were approximately €2.1 million.

UBI

In June 2015, Soleco S.r.l. entered into a loan agreement, or the Loan Agreement, with UBI Banca S.c.p.a., or UBI, pursuant to which it received financing amounting to approximately euro 10.3 million, net of expenses capitalized in the amount of approximately euro 0.4 million bearing interest at the Euribor 6 month rate plus a range of 2.85% per annum. The interest on the loan and principal are repaid semi-annually. The final maturity date of this loan was set for December 31, 2029.

The Loan was prepaid in May 2018 and no amounts are outstanding under the Loan Agreement as of December 31, 2018.

On May 17, 2018, five of our Italian subsidiaries (Ellomay PV Two S.r.l, Ellomay PV Seven S.r.l., Pedale S.r.l., Soleco S.r.l and Tecnoenergy S.r.l entered into a euro 35.9 million project finance Facility Agreement, or the Facility Agreement, with Mediocredito Italiano S.p.A, or Mediocredito, and Intesa Sanpaolo S.p.A. (as account bank).

The euro 35.9 million principal amount is divided into: (i) five term loan facilities, one for each subsidiary, to refinance the existing financing of the subsidiaries and for general purposes of the subsidiaries, in the aggregate amount of euro 33.7 million with terms ending in May 2028, and (ii) five revolving facilities, one for each subsidiary, aimed to cover financial needs for the debt service coverage in case of subsidiaries liquidity shortfall, in the aggregate amount of euro 2.2 million with terms ending in November 2027.

The loans provided under the Facility Agreement bear an annual interest rate equal to the Euribor 6 month rate plus a margin of 185 basis points. The Facility Agreement includes customary terms, including a default interest that will accrue a delay in payments, requirements to maintain financial ratios, various securities provided by the subsidiaries and a pledge on the shares of the subsidiaries and subordination agreement provided by Ellomay Luxemburg, our wholly-owned subsidiary and the parent company of the subsidiaries. The Facility Agreement provides for a cross-collateralization mechanism among the subsidiaries, whereby each subsidiary shall guarantee each other's obligations under the Facility Agreement and the other finance documents for a maximum guaranteed amount up to 180% of the relevant subsidiary's loan facility.

In addition, we provided guarantees in connection with specific exposures, one in the amount of approximately euro 1.8 million (an amount that is gradually reduced to zero on January 1 of each of the years 2019-2021) and the second in amounts ranging between approximately euro 1.0 million up to a maximum of euro 1.5 million through the date the loans under the Facility Agreement are repaid in full.

The Facility Agreement provides that the subsidiaries shall enter into interest swap agreements effective from the first repayment date of June 2018 for an amount equal to 75% of the overall amount of the term loan facilities. The subsidiaries entered into the swap agreements on May 29, 2018 with respect to approximately euro 25 million (with a decreasing notional principal amount based on the amortization table) until May 2028, replacing the Euribor 6 month rate with a fixed interest rate of 0.71%, resulting in a fixed annual interest rate of 2.56%.

The subsidiaries used the funds borrowed under the Facility Agreement to repay outstanding loans and leasing agreements in the aggregate amount of approximately euro 13.2 million as noted above.

As of December 31, 2018, all available funds outstanding the Facility Agreement, amounting to approximately €33.7 million, were utilized and the outstanding amounts were approximately €31.4 million.

Coöperatieve Rabobank U.A. Project Finance

Groen Goor Project Finance

Groen Goor, Independent Power Plant B.V. (the entity that holds the permits and subsidies in connection with the Goor Project and is wholly-owned by Groen Goor), or GIPP, Ludan, and Ellomay Luxembourg entered into a senior project finance agreement documents, or the Goor Loan Agreement, with Coöperatieve Rabobank U.A., or Rabobank, that includes the following tranches: (i) two loans with principal amounts of €3.51 million (with a fixed interest rate of 3% for the first five years) and €2.09 million (with a fixed interest rate of 2.5% for the first five years), for a period of 12.25 years, repayable in equal monthly installments commencing three months following the connection of the Goor Project's facility to the grid and (ii) an on-call credit facility of €370,000 with variable interest.

In connection with the Goor Loan Agreement, certain customary securities were provided, including the following first ranking securities: (i) a pledge on the present and future rights arising from the feedstock purchase agreement, the EPC agreement, the O&M agreement, the SDE subsidy, the various power and green gas purchase agreements, and the green gas certification supply agreement, (ii) pledge on all present and future (a) receivables arising from business and trade, and (b) stock and inventory including machinery and transport vehicles of Groen Goor and GIPP; (iii) all rights/claims of Groen Goor and GIPP against third parties existing at the time of the execution of the Loan Agreement, including rights from insurance agreements. In addition, Groen Goor granted Rabobank a negative pledge and a mortgage up to an amount of €6.5 million (to be increased with 35% of the said amount for interest and costs) on real estate or other assets subject to public registration of Groen Goor.

In addition, Ludan and Ellomay Luxemburg, our wholly-owned subsidiary: (i) provided the following undertakings to Rabobank: (a) that Groen Goor will not make distributions to its shareholders for a period of two years following the execution of the Loan Agreement, (b) that Groen Goor will not make distributions or repurchase its shares so long as the ratio of Groen Goor's and GIPP's equity and liabilities to shareholders to their balance sheet minus certain reserves and intangible assets is less than 40%, and (c) that in the event the aforementioned ratio is below 40%, its shareholders will invest the equity required in order to increase this ratio to 40%, pro rata to their holdings in Groen Goor and up to a maximum of €1.2 million, and (ii) provided pledges on their respective rights in connection with the shareholders loans that each of them provided to Groen Goor, which loans shall also be subordinated by Ellomay Luxembourg and Ludan in the favor of Rabobank. Shortages in liquidity as a result of exceeding the construction budget and/or extension of start-up costs of the Goor Project shall be provided by Ludan and Ellomay Luxembourg and not financed by Rabobank. In addition, we provided a guarantee to Rabobank for the fulfillment of Ellomay Luxembourg's undertakings set forth above.

As of December 31, 2018, the outstanding amount under the Groen Goor Project Finance was approximately €5.1 million.

Oude Tonge Project Finance

On May 3, 2017, Oude Tonge, Oude Tonge Holdings B.V. (the entity that holds the permits and subsidies in connection with the Oude Tonge Project and is wholly-owned by Oude Tonge), or OTH, Ludan and Ellomay Luxemburg entered into senior project finance agreement documents, or the Oude Tonge Loan Agreement, with Rabobank. In June 2017, the financial closing occurred with respect to the project finance that includes the following tranches: (i) two loans with principal amounts of €3.15 million and €1.7 million, each with a fixed annual interest rate of 3.1% for the first five years, for a period of 12.25 years, repayable in equal monthly installments commencing three months following the connection of the Oude Tonge Project to the grid and (ii) an on-call credit facility of €100,000 with variable interest.

In connection with the Oude Tonge Loan Agreement, certain customary securities were provided, including the following first ranking securities: (i) pledge on the present and future rights arising from supplier contracts, the EPC agreement, the O&M agreement, the SDE subsidy, the various power and green gas purchase agreements, and the green gas certification supply agreement, (ii) pledge on all present and future (a) receivables arising from business and trade, and (b) stock and inventory including machinery and transport vehicles of Oude Tonge and OTH; (iii) all rights/claims of Oude Tonge and OTH against third parties existing at the time of the execution of the Loan Agreement, including rights from insurance agreements. In addition, Oude Tonge granted Rabobank a negative pledge and a mortgage up to an amount of €5.5 million (to be increased with 35% of the said amount for interest and costs) on real estate or other assets subject to public registration of Oude Tonge and OTH.

In connection with the Oude Tonge Loan Agreement, Ludan and Ellomay Luxemburg, our wholly-owned subsidiary: (i) provided the following undertakings to Rabobank: (a) that Oude Tonge will not make distributions to its shareholders for a period of two years following the execution of the Loan Agreement, (b) that Oude Tonge will not make distributions or repurchase its shares so long as the ratio of Oude Tonge's and OTH's equity and liabilities to shareholders to their balance sheet minus certain reserves and intangible assets is less than 40%, (c) that in the event the aforementioned ratio is below 40%, its shareholders will invest the equity required in order to increase this ratio to 40%, pro rata to their holdings in Oude Tonge and up to a maximum of €1 million, and (d) that they will provide the equity required for the completion of the Goor Project and (ii) provided pledges on their respective rights in connection with the shareholders loans that each of them provided to Oude Tonge, which loans shall also be subordinated by Ellomay Luxembourg and Ludan in the favor of Rabobank. Shortages in liquidity as a result of exceeding the construction budget and/or extension of start-up costs of the Goor Project shall be provided by Ludan and Ellomay Luxembourg and not financed by Rabobank. In addition, we provided a guarantee to Rabobank for the fulfillment of Ellomay Luxembourg's undertakings set forth above.

As of December 31, 2018, the outstanding amount under the Oude Tonge Project Finance was approximately €4.7 million.

Talmei Yosef Project Finance

The construction of the Talmei Yosef PV Plant was financed by two bank loans as follows:

- a) a loan in the aggregate amount of approximately NIS 80 million provided during 2013 through 2014, linked to the Israeli CPI and bearing an average annual interest of approximately 4.65%. This loan is payable (principal and interest) every six months commencing June 30, 2014. The final maturity date is December 31, 2031; and
- b) a loan in the aggregate amount of approximately NIS 25 million provided during 2014, linked to the Israeli CPI and bearing an annual interest of approximately 4.52%. This loan is payable (principal and interest) every six months commencing June 30, 2015 through June 30, 2028.

In connection with these loans, the Talmei Yosef project company provided charges on its rights in the PV Plant, notes, equity, goodwill, on all assets of the PV Plant and on future receivables from the IEC and undertook customary limitations and undertakings, including maintaining the following financial ratios: (i) upon withdrawal of funds on account of the loan framework (based on milestones), maintaining an annual Historic ADSCR, a Projected ADSCR and a Projected LLCR (all as defined in the relevant loan agreement) of 1.25:1.00, (ii) upon a distribution of profits from the project company, maintaining a Historic ADSCR, a Projected ADSCR and a Projected LLCR of 1.20:1.00, and (iii) throughout the term of the loan, maintaining an annual ADSCR and a Projected ADSCR of 1.05:1.00 for the following 12 months and maintaining an LLCR of 1.08:1.00.

As of December 31, 2018, the outstanding amount under the Talmei Yosef Project Finance was approximately NIS 81.8 million (approximately €19.1 million).

Talalol Project Finance

In December 2018, Talalol entered into the Talalol Project Finance. As of December 31, 2018, financial closing has not occurred and no drawdowns were made under the Talalol Project Finance. For more information concerning the Talalol Project Finance see “Item 4.B: Business Overview – Talalol Project Finance.”

Other Financing Activities

Series A Debentures

On January 13, 2014, we issued NIS 120 million (approximately €25.2 million, as of the issuance date) of unsecured non-convertible Series A Debentures due December 31, 2023 through a public offering that was limited to residents of Israel at a price of NIS 973 per unit (each unit comprised of NIS 1,000 principal amount of Series A Debentures). The Series A Debentures bear fixed interest at the rate of 4.6% per year and are not linked to the Israeli CPI or otherwise. The gross proceeds of the offering were approximately NIS 116.8 million (approximately €24.5 million, at the date of issuance) and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions were approximately NIS 114.7 million (approximately €24.1 million, at the date of issuance). During June 2014, we issued Series A Debentures in an aggregate par value of NIS 80.341 million to Israeli classified investors in a private placement. The gross proceeds of the private placement were approximately NIS 81.1 million (approximately €17.3 million, at the date of issuance) at a price of NIS 1,010 per unit and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions and interest paid on these additional Series A Debentures in June 2014 were NIS 78.9 million (approximately €16.8 million). The Series A Debentures are traded on the TASE and have been rated iBBB+/Stable, on a local scale, by Standard & Poor's Maalot Ltd. For additional information concerning the Series A Debentures see “Item 10.C: Material Contracts.”

The principal amount of Series A Debentures is repayable in ten equal annual installments on December 31 of each of the years 2014 through 2023 (inclusive) and is not linked to the CPI or otherwise. The Series A Debentures bear a fixed annual interest rate of 4.6%, payable semi-annually on June 30 and December 31 of each of the years 2014 through 2023 (inclusive).

The Series A Deed of Trust includes customary provisions and also includes the following: (i) a negative pledge such that we may not place a floating charge on all of our assets, subject to certain exceptions, and (ii) an obligation to pay additional interest for certain security rating downgrades, up to an increase of 1% for a decrease of four rating levels compared to the rating at the time of issuance of the Series A Debentures. The Series A Deed of Trust does not restrict our ability to issue any new series of debt instruments, other than in certain specific circumstances, and enables us to expand the Series A Debentures subject to maintaining the rating assigned to the Series A Debentures and our continued compliance with the financial covenants included in the Series A Deed of Trust.

The Series A Deed of Trust further includes a number of customary causes for immediate repayment, including a default in connection with certain financial covenants for two consecutive financial quarters, which is not cured within the cure period set forth in the Series A Deed of Trust. The financial covenants are as follows:

1. Our equity, on a consolidated basis, shall not be less than \$55 million;
2. The ratio of (a) the short-term and long-term debt from banks, in addition to the debt to holders of debentures issued by us and any other interest-bearing financial obligations, net of cash and cash equivalents and short-term investments and net of project finance, including hedging transactions in connection with such project finance, of our subsidiaries, or, together, the Net Financial Debt, to (b) our equity, on a consolidated basis, plus the Net Financial Debt, shall not exceed a rate of 65%; and
3. The ratio of (a) our equity, on a consolidated basis, to (b) our balance sheet, on a consolidated basis, shall not be less than a rate of 20%.

The Series A Deed of Trust further provides that we may make distributions (as such term is defined in the Companies Law, e.g. dividends), to our shareholders, provided that: (a) our equity following such distribution will not be less than \$75 million, (b) we meet the financial covenants set forth above prior to and following the distribution, (c) we will not distribute more than 75% of the distributable profit and (d) we will not distribute dividends based on profit due to revaluation (for the removal of doubt, negative goodwill will not be considered a revaluation profit).

As of December 31, 2018, the outstanding amount under the Series A Debentures was approximately NIS 100.2 million (approximately €23.3 million).

For further information concerning the Series A Deed of Trust, see “Item 10.C: Material Contracts” and the Series A Deed of Trust included as exhibit 4.19 under “Item 19. Exhibits.”

In connection with the issuance of our Debentures, we undertook to comply with the “hybrid model disclosure requirements” as determined by the Israeli Securities Authority and as described in the prospectuses published in connection with the public offering of our Debentures. This model provides that in the event certain financial “warning signs” exist, and for as long as they exist, we will be subject to certain disclosure obligations towards the holders of our Debentures.

In connection with the issuance of our Series A Debentures, we undertook to examine the existence of “warning signs” with respect to our separate internal (unpublished) unaudited financial information on an annual basis (in addition to the examination of “warning signs” with respect to our consolidated financial results or statements. One possible “warning sign” is a “continuing” negative cash flow from operating activities in the event the board of directors of the company does not determine that the continuing negative cash flow from operation activities does not indicate a liquidity problem.

In examining the existence of warning signs as of December 31, 2018, our Board of Directors noted the negative cash flow from operating activities reflected in our separate internal (unpublished) unaudited financial information for the year ended December 31, 2018. Our Board of Directors concluded that the aforementioned negative cash flow should not be deemed as “continuing” due to the positive cash flow from operating activities based on our separate internal (unpublished) unaudited financial information for the year ended December 31, 2017 and for six months ended December 31, 2017 and the positive cash flow from operating activities based on our audited consolidated financial statements for the years ended December 31, 2017 and 2018.

Series B Debentures

On March 14, 2017, we issued approximately NIS 123.2 million (approximately €31.7 million, as of the issuance date) of unsecured non-convertible Series B Debentures due June 30, 2024 through a public offering in Israel. The gross proceeds of the offering were approximately NIS 123.2 million and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions, were approximately NIS 121.4 million (approximately €31.2 million). The Series B Debentures are traded on the TASE and have been rated iBBB+/Stable, on a local scale, by Standard & Poor’s Maalot Ltd. For additional information concerning the Series B Debentures see “Item 10.C: Material Contracts.”

The principal amount of Series A Debentures is repayable in six (6) annual installments as follows: on June 30 of each of the years 2019-2022 (inclusive) 15% of the Principal shall be paid, and on June 30 of each of 2023-2024 (inclusive) 20% of the Principal shall be paid, and is not linked to the CPI or otherwise. The Series B Debentures initially bore a fixed interest at the rate of 3.44% per year (that is not linked to the Israeli CPI or otherwise), payable semi-annually on June 30 and December 31 of each of the years 2017 through June 30, 2024 (inclusive). On November 13, 2017, following a rating downgrade of our Debentures from iA- to iBBB+, the Series B Debentures fixed annual interest rate was increased by 0.25% to 3.69%.

The Series B Deed of Trust includes customary provisions and also includes the following: (i) a negative pledge such that we may not place a floating charge on all of our assets, subject to certain exceptions, (ii) an obligation to pay additional interest for certain security rating downgrades, up to an increase of 1% for a decrease of four rating levels compared to the rating at the time of issuance of the Series B Debentures and (iii) an obligation to pay additional interest for failure to maintain certain financial covenants, up to an increase of 1% (with a cap on the combined increase in interest due to security rating downgrades and failure to meet financial covenants of 1.75%). The Series B Deed of Trust does not restrict our ability to issue any new series of debt instruments, other than in certain specific circumstances, and enables us to expand the Series B Debentures subject to maintaining the rating assigned to the Series B Debentures and to our continued compliance with the financial covenants included in the Series B Deed of Trust and provided that we are not in default of any of the immediate repayment provisions included in the Series B Deed of Trust or in material default of our obligations to the holders of the Series B Debentures pursuant to the terms of the Series B Deed of Trust.

The Series B Deed of Trust further includes a number of customary causes for immediate repayment, including a default in connection with certain financial covenants for two consecutive financial quarters. The financial covenants are as follows:

1. Our equity, on a consolidated basis, shall not be less than \$55 million;
2. The ratio of (a) the short-term and long-term debt from banks, in addition to the debt to holders of debentures issued by us and any other interest-bearing financial obligations, net of cash and cash equivalents and short-term investments and net of financing of projects, including hedging transactions in connection with such financing, of our subsidiaries, or, together, the Net Financial Debt, to (b) our equity, on a consolidated basis, plus the Net Financial Debt:
 - a. Until and including the financial results for June 30, 2018 – shall not exceed the rate of 65% for purposes of the immediate repayment provision and shall not exceed the rate of 60% for purposes of the interest increase provision (due to failure to meet financial covenants as noted above); and
 - b. Commencing from the financial results for September 30, 2018 – shall not exceed the rate of 60% for purposes of the immediate repayment provision and shall not exceed the rate of 55% for purposes of the interest increase provision; and
3. The ratio of (a) our equity, on a consolidated basis, to (b) our balance sheet, on a consolidated basis:
 - a. Until and including the financial results for June 30, 2018 – shall not be less than a rate of 20% for purposes of the immediate repayment provision and shall not be less than a rate of 25% for purposes of the interest increase provision; and
 - b. Commencing from the financial results for September 30, 2018 – shall not be less than a rate of 25% for purposes of the immediate repayment provision and shall not be less than a rate of 30% for purposes of the interest increase provision.

The Series B Deed of Trust includes similar conditions to our ability to make distributions (as such term is defined in the Companies Law, e.g. dividends), to our shareholders as are included in the Series A Deed of Trust and set forth above.

As of December 31, 2018, the outstanding amount under the Series B Debentures was approximately NIS 123.2 million (approximately €28.7 million).

For further information concerning the Series B Deed of Trust, see “Item 10.C: Material Contracts” and the Series B Deed of Trust included as exhibit 4.24 under “Item 19. Exhibits.”

Cash flows

The following table summarizes our cash flows for the periods presented:

	Year ended December 31,			
	**2016	2017	2018	2018
	euro			Convenience Translation into US\$*
	(in thousands)			
Net cash from operating activities	7,317	2,305	6,590	7,547
Net cash from (used in) investing activities	579	(27,343)	(5,795)	(6,637)
Net cash from (used in) financing activities	(2,451)	29,670	12,258	14,036
Effect of exchange rate fluctuations on cash and cash equivalents	(153)	(3,156)	(133)	(152)
Increase in cash and cash equivalents	5,292	1,476	12,920	14,794
Cash and cash equivalents at beginning of year	17,194	22,486	23,962	27,437
Cash and cash equivalents at end of year	22,486	23,962	36,882	42,231

* Convenience translation into USD based on an exchange rate of euro 1 = US\$ 1.145.

** Effective December 31, 2017, the Company changed its presentation currency from the United States dollar to the euro. The consolidated financial statements for all prior years presented have been translated into euro.

Operating activities

In the year ended December 31, 2018, we had net profit of approximately €06 million, primarily due to increase financing income resulting from reevaluation of the Company's euro/USD forward transactions and marketable securities and as a result of the IFRIC 12 financial asset model for the Talmei Yosef PV Plant. Net cash from operating activities was approximately €6.6 million.

In the year ended December 31, 2017, we had net loss of approximately €6.6 million, primarily due to increased financing expenses resulting from the reevaluation of the Company's euro/USD forward transactions and marketable securities and from exchange rate differences caused by the 14% revaluation of the euro against the US\$ during 2017. Net cash from operating activities was approximately €2.3 million.

In the year ended December 31, 2016, we had net loss of approximately €0.6 million. Net cash from operating activities was approximately €8 million, primarily due to interest payment received on a loan to an equity accounted investee amounting to approximately €4.6 million and collection of revenue from the sale of electricity by our PV Plants.

Investing activities

Net cash used in investing activities was approximately €5.8 million in the year ended December 31, 2018, primarily attributable to acquisition of fixed assets in the WtE Project in the Netherlands and a refundable down payment in connection with the Talasol project.

Net cash used in investing activities was approximately €27.3 million in the year ended December 31, 2017, primarily attributable to the acquisition of the Talmei Yosef Project, acquisition of fixed assets in the Netherlands, acquisition of marketable securities and advances on account of investments in the Talasol Project.

Net cash from investing activities was approximately €0.6 million in the year ended December 31, 2016, primarily attributable to the repayment of a loan from an equity accounted investee and proceeds from marketable securities.

Financing activities

Net cash from financing activities in the year ended December 31, 2018 was approximately €12.3 million, derived primarily from the financing of five of our Italian subsidiaries, net of repayment of principal on our Debentures and loans and early repayment of project finance in Italy.

Net cash from financing activities in the year ended December 31, 2017 was approximately €29.7 million, derived primarily from the issuance of our Series B Debentures in March 2017, net of repayment of principal on our Debentures and loans.

Net cash used in financing activities in the year ended December 31, 2016 was approximately €2.5 million, primarily attributable to principal and interest repayments to our Series A Debentures holders and a €2.1 million dividend distribution to our shareholders, partially offset by a long term bank loan received in connection with the Goor Project.

For more information concerning hedging transactions undertaken in connection with financings granted at EURIBOR linked interest, our Debentures, and in connection with our exposure to changes in fair value of our other loans and borrowings, as a result of changes in the interest rates, see “Item 11: Quantitative and Qualitative Disclosures About Market Risk.”

During 2018, we entered into the project finance with Mediocredito in connection with five of our Italian PV Plants and into the project finance of the Talasol Project. For more information see “Mediocredito Italiano S.p.A” under “Project Finance” above and “Item 4.B: Business Overview – Talasol Project Finance.”

During 2017, we issued the Series B Debentures. For more information concerning the Series B Debentures, see “Series B Debentures” under “Other Financing Activities” above and Note 12 to the financial statements included in this report. We also entered into the loan agreement with Rabobank in connection with the Oude Tonge Project. For more information concerning this loan agreement, see “Coöperatieve Rabobank U.A. Project Finance” above and Note 6 to our financial statements included in this report. In connection with the acquisition of the Talmei Yosef PV Plant, we acquired the project finance liabilities of such project. For more information see “Talmei Yosef Project Finance” above and Note 6 to our financial statements included in this report.

During 2016, we entered into the loan agreement with Rabobank in connection with the Groen Goor Project. For more information concerning this loan agreement, see “Coöperatieve Rabobank U.A. Project Finance” above, “Item 4.B: Business Overview” under “The Groen Goor Project – Groen Goor Project Finance” and Note 11 to our financial statements included in this report.

As of December 31, 2018, we were not in default under any financial covenants pursuant to the agreements set forth above.

As of December 31, 2018, our total current assets amounted to approximately €88.9 million, of which approximately €36.9 million was in cash and cash equivalents and approximately €2.1 million was in marketable securities, compared with total current liabilities of approximately €9.8 million.

As of December 31, 2017, our total current assets amounted to approximately €42.6 million, of which approximately €24 million was in cash and cash equivalents and approximately €5.4 million was in marketable securities, compared with total current liabilities of approximately €11.3 million.

The increase in our cash and marketable securities balance is mainly attributable to the cash received in connection with the financing of five of our Italian subsidiaries and the cash collected in connection with the sale of electricity and repayment of loan from an equity accounted investee, net of amounts invested in new operations, repayment of loans and general and administrative expenses.

C. Research and Development, Patents and Licenses, etc.

We did not conduct any research and development activities in the years ended December 31, 2016, 2017 and 2018.

D. Trend Information

We operate in the Italian and Spanish photovoltaic markets, in the Netherlands waste-to-energy market and in the Israeli energy market through our twelve PV Plants in Italy, four PV Plants in Spain, our PV Plant in Israel, a 51% ownership in the Goor Project and in the Oude Tonge Project, our ownership of 50% of the issued and outstanding shares of Dori Energy and our ownership of 75% of the Manara PSP. Our PV Plants are all operational and connected to the relevant national grids. However, as we acquired the Talmei Yosef PV Plant during October 2017 and as the Goor Project only commenced operations in November 2017 and the Oude Tonge project only commenced operations in June 2018, our results for 2016-2018 do not reflect a full three-years of operations of such projects. The Manara PSP and the Talasol Project have not yet commenced the construction stage.

Our business and revenue growth from the markets in which we operate depends, among other factors, on payments received in accordance with applicable regulation and on seasonality and availability of raw materials. Revenue derived from our PV operations tends to be lower in the winter, primarily because of adverse weather conditions. The growth of our renewable energy business in Italy, Spain, the Netherlands, Israel and elsewhere and our other operations are affected significantly by government subsidies and economic incentives. In addition, our ability to continue to leverage the investment in these markets, may affect the profitability of past and future transactions. Dorad's revenues are also dependent to an extent on regulation and on seasonality. For more information see "Item 3.D: Risk Factors - Risks Related to our Renewable Energy Operations," "Item 3.D: Risk Factors - Risks Related to our Investment in Dori Energy," and "Item 4.B: Business Overview."

E. Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements. In addition we have no unconsolidated special purpose financing or partnership entities that are likely to create material contingent obligations.

F. Tabular Disclosure of Contractual Obligations

The following table of our material contractual obligations as of December 31, 2018, summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

Contractual Obligations*	Payments due by period (in thousands of euro)				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	more than 5 years
Long-term loans (including current maturities) ⁽¹⁾	71,826	7,350	15,268	15,038	34,170
Long-term rent obligations ⁽²⁾	3,378	292	490	434	2,162
Debentures (including current maturities) ⁽¹⁾	58,667	11,029	20,937	20,852	5,849
SWAP contracts	632	173	263	155	41
FW contracts	977	-	-	977	-
Currency SWAP	2,117	192	622	947	356
Total	137,597	19,036	37,580	38,403	42,578

* For contractual obligations related to our investment in the Italian and Spanish photovoltaic market, please refer to “Business.”

(1) These amounts include future payments of interest.

(2) Includes land lease agreements of our Italian, Spanish and Israeli subsidiaries. Rent until September 30, 2020 of our offices in Tel Aviv is also included.

ITEM 6: Directors, Senior Management and Employees

A. Directors and Senior Management

Directors and Senior Management

The following table sets forth certain information with respect to our directors and senior management, as of March 1, 2019:

Name	Age	Position with Ellomay
Shlomo Nehama ⁽¹⁾⁽²⁾	64	Chairman of the Board of Directors
Ran Fridrich ⁽¹⁾⁽²⁾⁽³⁾	66	Director and Chief Executive Officer
Hemi Raphael ⁽¹⁾⁽²⁾	67	Director
Anita Leviant ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾	64	Director
Mordechai Bignitz ⁽⁴⁾⁽⁵⁾⁽⁶⁾	67	Director
Dr. Michael J. Anghel ⁽⁴⁾⁽⁵⁾⁽⁶⁾	80	Director
Kalia Weintraub	40	Chief Financial Officer
Ori Rosenzweig	42	Chief Investment Officer

(1) Elected pursuant to the Shareholders Agreement, dated as of March 24, 2008, between S. Nechama Investments(2008) Ltd. and Kanir Joint Investments (2005) Limited Partnership (See “Item 7.A: Major Shareholders”).

(2) Provides management services to the Company pursuant to the Management Services Agreement (See “Item 6.B: Compensation”).

(3) Member of our Advisory Committee.

(4) Independent Director pursuant to the NYSE American LLC rules.

(5) Member of our Audit and Compensation Committees.

(6) External Director pursuant to the Companies Law.

The address of each of our executive officers and directors is c/o Ellomay Capital Ltd., 9 Rothschild Boulevard, 2nd floor, Tel Aviv 6688112, Israel.

Shlomo Nehama has served as a director and Chairman of the Board of Ellomay since March 2008. From 1998 to 2007, Mr. Nehama served as the Chairman of the Board of Bank Hapoalim B.M., one of the largest Israeli banks. In 1997, together with the late Ted Arison, he organized a group of American and Israeli investors who purchased Bank Hapoalim from the State of Israel. From 1992 to 2006, Mr. Nehama served as the Chief Executive Officer of Arison Investments. From 1982 to 1992, Mr. Nehama was a partner and joint managing director of Eshed Engineers, a management consulting firm. He also serves as a director in several philanthropic academic institutions, on a voluntary basis. Mr. Nehama is a graduate of the Technion - Institute of Technology in Haifa, Israel, where he earned a degree in Industrial Management and Engineering. Mr. Nehama received an honorary doctorate from the Technion for his contribution to the strengthening of the Israeli economy.

Ran Fridrich has served as a director of Ellomay since March 2008, as our interim chief executive officer since January 2009, and as our chief executive officer since December 2009. Mr. Fridrich is the co-founder and executive director of Oristan, Investment Manager, an investment manager of CDO Equity and Mezzanine Funds and a Distress Fund, established in June 2004. In January 2001 Mr. Fridrich founded the Proprietary Investment Advisory, an entity focused on fixed income securities, CDO investments and credit default swap transactions, and served as its investment advisor through January 2004. Prior to that, Mr. Fridrich served as the chief executive officer of two packaging and printing Israeli companies, Lito Ziv, a public company, from 1999 until 2001 and Mirkam Packaging Ltd. from 1983 until 1999. Mr. Fridrich also serves as a director of Cargal Ltd. since September 2002 and since 2007 as a director in Plastosac. Mr. Fridrich is a graduate of the Senior Executive Program of Tel Aviv University.

Hemi Raphael has served as a director of Ellomay since June 2006. Mr. Raphael is an entrepreneur and a businessman involved in various real estate and financial investments. Mr. Raphael also serves as a director of Cargal Ltd. since May 2004 and of Dorad Energy Ltd. Prior thereto, from 1984 to 1994, Mr. Raphael was an active lawyer and later partner at the law firm of Goldberg Raphael & Co. Mr. Raphael holds an LLB degree from the School of Law at the Hebrew University of Jerusalem and he is a member of the Israeli Bar Association and the California Bar Association.

Anita Leviant has served as a director of Ellomay since March 2008. Ms. Leviant heads LA Global Consulting, a practice specializing in representing and consulting global oriented companies in IPO process. LAGC represents and consults investors and corporations on business and regulatory issues, in Fintech and Cyber investments, in cross border and financial transactions, banking and capital markets. LAGC provides through its Tel Aviv head office and its London based subsidiary soft lending for overseas business in Israel and in the UK. For a period of twenty years, until 2006, Ms. Leviant held several senior positions with Hapoalim Banking group including EVP Deputy Head of Hapoalim Europe and Global Private Banking and EVP General Global Counsel of the group, and served as a director in the overseas subsidiaries of Bank Hapoalim. Prior to that, Ms. Leviant was an associate in GAFNI & CO. Law Offices in Tel Aviv where she specialized in Liquidation, Receivership and Commercial Law and was also a Research Assistant to the Law School Dean in the Tel Aviv University specialized in Private International Law. Ms. Leviant holds a LL.B degree from Tel Aviv University Law School and is a member of both the Israeli and the New York State Bars. Ms. Leviant currently also serves as President of the Israel-British Chamber of Commerce, Council Member of the UK- Israel Tech Council, Board Member of the Federation of Bi-Lateral Chambers of Commerce and a Co-Founder of the Center for Arbitration and Dispute Resolutions Ltd. Ms. Leviant is a certified mediator.

Mordechai Bignitz has served as an external director of Ellomay since December 20, 2011. Mr. Bignitz is involved in economic and financial consulting and investment management and currently serves as the CEO of OWC Pharmaceutical Corporation (OTC: OWCP) and as a director and CEO of One World Cannabis Ltd., a subsidiary of OWC. From 2006 to 2015, Mr. Bignitz served as the chairman of the investment committee of Migdal Capital Trust Ltd. and from 2017 he serves as a director of this company. From 2009 to 2011, Mr. Bignitz served as CEO of Geffen Green Energy Ltd., an Israeli private company. From 2006 to 2010, Mr. Bignitz served as a director of Leader Capital Markets Ltd. (TASE: LDRC), from 2007 to 2010 he served as a director of Leader Holdings & Investments Ltd. (TASE: LDER) and from 2010 to 2013 he served as a director of Ablon Ltd. From 2004 to 2007, Mr. Bignitz served as CEO of Advanced Paradigm Technology. From 1992 to 2004, Mr. Bignitz served as director and CFO of DS Capital Markets. From 1994 to 1996, Mr. Bignitz served as Managing Director of Dovrat, Shrem & Co. Trading Ltd. From 1991 to 1994 Mr. Bignitz served as Vice President and CFO of Dovrat Shrem & Co. and prior to that he served as Vice President of Clal Retail Chains (a subsidiary of the Clal Group) and Vice President & CFO of Clal Real Estate Ltd. Mr. Bignitz serves as a director of ARAD Investment and Industrial Development Ltd. (TASE: ARD). Mr. Bignitz is a CPA, holds a BA in Accounting and Economics from Tel-Aviv University and completed the Executive Program in Management and Strategy in Retail at Babson College in Boston. Mr. Bignitz qualifies as an external director according to the Companies Law.

Dr. Michael J. Anghel has serviced as an external director of Ellomay since January 24, 2019. From 1977 to 1999, Dr. Anghel led the Discount Investment Corporation Ltd. (of the IDB Group) activities in the fields of technology and communications. Dr. Anghel was instrumental in founding Tevel, one of the first Israeli cable television operators and later in personally managing the founding of Cellcom Israel Ltd. (NYSE; TASE: CEL), the largest cellular operator in Israel. In 1999 he founded CAP Ventures, an advanced technology investment company. From 2004 to 2005, Dr. Anghel served as CEO of DCM, the investment banking arm of the Israel Discount Bank. He has been involved in various technology enterprises and has served on the board of directors of various major Israeli corporations and financial institutions including Elron Electronic Industries Ltd., Elbit Systems Ltd., Nice Ltd., Gilat Satellite Networks Ltd., American Israeli Paper Mills Ltd., Maalot (the Israeli affiliate of Standard and Poor's), Hapoalim Capital Markets Ltd., Syneron Medical Ltd., Dan Hotels Ltd., the Strauss Group Ltd. and Partner Communications Company Ltd. He also served until recently as the Chairman of the Israeli Center for Educational Technology (Matach). Dr. Anghel currently serves on the board of directors of Orbotech Ltd. (NASDAQ: ORBK), Lumus Ltd. and BiolineRx Ltd. (NASDAQ; TASE: BLRX). On all boards of directors of the publicly traded companies he served as member or chairman of the audit committees. Prior to launching his business career, Dr. Anghel served as a full-time member of the Recanati Graduate School of Business Administration of the Tel Aviv University, where he taught finance and corporate strategy. He currently serves as Chairman of the Tel Aviv University's Executive Program. Dr. Anghel holds a B.A. in economics from the Hebrew University in Jerusalem and an M.B.A. and Ph.D. in finance both from Columbia University in New York. Dr. Anghel qualifies as an external director according to the Companies Law.

Kalia Weintraub has served as our chief financial officer since January 2009. Prior to her appointment as our chief financial officer, Ms. Weintraub served as our corporate controller from January 2007 and was responsible, among her other duties, for the preparation of all financial reports. Prior to joining Ellomay, she worked as a certified public accountant in the AABS High-Tech practice division of the Israeli accounting firm of Kost Forer Gabbay & Kasierer, an affiliate of the international public accounting firm Ernst & Young, from 2005 through 2007 and in the audit division of the Israeli accounting firm of Brightman Almagor Zohar, an affiliate of the international public accounting firm Deloitte, from 2003 to 2004. Ms. Weintraub holds a B.A. in Economics and Accounting and an M.B.A. from the Tel Aviv University and is licensed as a CPA in Israel.

Ori Rosenzweig has served as our Chief Investment Officer since November 2014. Prior to joining Ellomay, Mr. Rosenzweig was the head of Cash Management at Bank Leumi Le-Israel B.M. (TASE: LUMI), one of Israel's largest banks, from 2013 through 2014, the VP Finance at AFI Investments, one of the largest international real-estate developers in Israel (TASE: AFIL) from 2009 through 2013 and a senior manager at GSE financial consulting from 2002 through 2008. Mr. Rosenzweig holds a MBA degree from the Tel Aviv University and a BA degree in business and international relations from the Hebrew University.

There are no family relationships among any of the directors or members of senior management named above.

On December 20, 2018, Barry Ben Zeev's third service term as an external director expired. On January 24, 2019, Dr. Anghel was appointed as an external director, replacing Mr. Ben Zeev.

B. Compensation

General

Salaries, fees, commissions and bonuses paid or accrued with respect to all of our directors and senior management as a group in the fiscal year ended December 31, 2018 was approximately €473 million, including an amount of approximately €48 million related to pension, retirement and other similar benefits. These figures do not include the compensation of Messrs. Shlomo Nehama, Ran Fridrich and Hemi Raphael, all of whom are members of our Board that are currently compensated pursuant to the Management Services Agreement (see "Item 7.B: Related Party Transactions" below) and have, in connection with such agreement, waived their right to receive the compensation, including options, paid to our directors.

The table below reflects the terms of service and employment of our five most highly compensated “office holders” (as such term is defined in the Companies Law) during or with respect to the year ended December 31, 2018. All amounts reported in the table below are as recognized in our financial statements for the year ended December 31, 2018.

Name and Position	Salary ⁽¹⁾	Management Fees	Bonus	Share-Based Payment	Total
	(euro in thousands)				
Shlomo Nehama, <i>Chairman of the Board</i>	-	169 ⁽²⁾	-	-	169 ⁽²⁾
Ran Fridrich, <i>CEO and Director</i>	-	84,5 ⁽²⁾⁽³⁾	-	-	84,5 ⁽²⁾⁽³⁾
Hemi Raphael, <i>Director</i>	-	84,5 ⁽²⁾⁽³⁾	-	-	84,5 ⁽²⁾⁽³⁾
Kalia Weintraub, <i>Chief Financial Officer</i>	183	-	-	-	183
Ori Rosenzweig, <i>Chief Investment Officer</i>	188	-	-	-	188

- (1) Salary and related benefits are paid to our executive officers in NIS. Salary as reported herein includes the recipient’s gross salary plus payment of social and other benefits made by us to or on behalf of the recipient. Such benefits may include, to the extent applicable, payments, contributions and/or allocations for education funds, pension funds, managers’ insurance, severance, risk insurances (e.g., life, or work disability insurance), social security, tax gross-up payments, vacation, car, phone, convalescence pay and other benefits and perquisites consistent with our policies.
- (2) Such amounts are paid pursuant to the terms of the Management Services Agreement among the Company, Kanir and Meisaf Blue & White Holdings Ltd., which provides for an annual aggregate payment of \$400,000. For additional information, see “Management Services Agreement” below.
- (3) The Management Services Agreement provides for an aggregate payment to Kanir of \$200,000 in connection with services provided by Messrs. Fridrich and Raphael. For purposes of this tabular presentation, we divided the aggregate annual payment to Kanir equally between Mr. Fridrich and Mr. Raphael, however, this division does not necessarily represent the actual amounts received by them.

Other than options granted to members of our Board of Directors, there are no outstanding options to purchase ordinary shares that were granted during 2018. For more information see “Item 6.E: Share Ownership.”

Management Services Agreement

In December 2008, following the approval of our Audit Committee, Board of Directors and shareholders, we entered into the Management Services Agreement with Kanir and with Meisaf Blue & White Holdings Ltd., or Meisaf, a private company controlled by Shlomo Nehama, effective as of March 31, 2008, the date of appointment of Messrs. Fridrich and Nehama as members of our Board. In consideration for the performance of the management services and the board services under the terms of the Management Services Agreement, we agreed to pay Kanir and Meisaf, in equal parts and quarterly, an aggregate annual services fee in the amount of \$250,000 plus value added tax pursuant to applicable law. This annual amount was increased to \$400,000 (approximately €352 as of March 1, 2019) following approval by our Audit Committee, Compensation Committee, Board of Directors and by our shareholders at our annual shareholders meeting for 2013, or the 2013 Shareholders Meeting. Messrs. Nehama, Fridrich and Raphael waived any right to additional remuneration for their service as members of our board of directors. In addition, Mr. Fridrich, who first served as our Interim Chief Executive Officer and is now our Chief Executive Officer, serves as our Chief Executive Officer as part of the management services provided pursuant to the Management Services Agreement, and agreed not to receive any additional compensation or other benefits beyond the fees paid in connection with the Management Services Agreement. For more information see “Item 7.B: Related Party Transactions.”

Compensation of Non-Executive Directors

As approved by our shareholders, we pay our non-executive directors (Anita Leviant, Mordechai Bignitz and Dr. Michael J. Anghel) remuneration for their services as directors. During 2010 and thereafter, based on the approval by our shareholders at our annual general meeting of shareholders held on December 30, 2009 and on June 20, 2012, our current and future directors have been and would in the following years be paid the minimum fees permitted by the Companies Regulations (Rules for Compensation and Expenses of External Directors), 5760-2000, or the Compensation Regulations. The Compensation Regulations set forth a range of fees that may be paid by Israeli public companies to their external directors, depending upon each company's equity based on the most recent financial statements. The current minimum cash amounts permitted to be paid to our external directors pursuant to the Compensation Regulations, are an annual fee of NIS 52,160 (equivalent to approximately €45,931 as of March 1, 2019) and an attendance fee of NIS 1,845 (equivalent to approximately €1,625 as of March 1, 2019) per meeting (board or committee). These amounts are updated once a year based on increases in the Israeli Consumer Price Index. According to the Compensation Regulations, which we apply to all our non-executive directors, the directors are entitled to 60% of the meeting fee if they participated at the meeting by teleconference and not in person, and to 50% of the meeting fee if resolutions were approved in writing, without convening a meeting.

Each of these non-executive directors (Anita Leviant, Mordechai Bignitz and Dr. Michael J. Anghel) also receives an annual grant of options to purchase 1,000 ordinary shares under the terms and conditions set forth in our 1998 Share Option Plan for Non-Employee Directors, or the 1998 Plan. The 1998 Plan provides for grants of options to purchase ordinary shares to our non-employee directors. The 1998 Plan, as amended, is administered, subject to Board approval, by the Compensation Committee and our Board. An aggregate amount of not more than 75,000 ordinary shares is reserved for grants under the 1998 Plan. The original expiration date of the 1998 Plan pursuant to its terms was December 8, 2008 (10 years after its adoption). The term of the 1998 Plan was subsequently extended to December 8, 2028, unless earlier terminated by our Board.

Under the 1998 Plan, each non-employee director that served on the 1998 "Grant Date," as defined below, automatically received an option to purchase 1,000 ordinary shares on such Grant Date and will receive an option to purchase an additional 1,000 ordinary shares on each subsequent Grant Date thereafter, provided that he or she is a non-employee director on the Grant Date and has remained a non-employee director for the entire period since the previous Grant Date. The "Grant Date" means, with respect to 1998, October 26, 1998, and with respect to each subsequent year, August 1 of such year. Directors first elected or appointed after the 1998 Grant Date, will automatically receive on such director's first day as a director an option to purchase up to 1,000 ordinary shares pro-rated based on the number of full months of service between the prior Grant Date and the next Grant Date. Each such non-employee director would also automatically receive, on each subsequent Grant Date, an option to purchase 1,000 ordinary shares provided that he or she is a non-employee director on the Grant Date and has served as a non-employee director for the entire period since his or her previous Grant Date.

The exercise price of the option shares under the 1998 Plan is 100% of the fair market of such ordinary shares at the applicable Grant Date. The fair market value means, as of any date, the average closing bid and sale prices of the ordinary shares for the date in question as furnished by the National Association of Securities Dealers, Inc. through Nasdaq or any similar organization if Nasdaq is no longer reporting such information, or such other market on which the ordinary shares are then traded, or if not then traded, as determined in good faith (using customary valuation methods) by resolution of the members of our Board of Directors, based on the best information available to it. The exercise price is required to be paid in cash.

The term of each option granted under the 1998 Plan is 10 years from the applicable date of grant and such options may be terminated earlier upon certain circumstances, such as the expiration of three months from the date of the director's termination of service on our Board (subject to extension and certain exceptions pursuant to the terms of the 1998 Plan). Pursuant to the original terms of the 1998 Plan, all options granted under the 1998 Plan were fully vested immediately upon the date of grant. In connection with the adoption of our compensation policy in 2013, the 1998 Plan was amended to provide that options granted under the 1998 Plan will become exercisable based on the vesting schedule determined in the approvals of the option grant. At our 2013 Shareholders Meeting, our shareholders, following the approval of our Compensation Committee and Board of Directors, approved an amendment to the vesting terms of future option grants to our non-employee directors so that the options granted to these directors will vest in one installment on the first anniversary of the grant date of the options.

The options granted are subject to restrictions on transfer, sale or hypothecation. All options and ordinary shares issuable upon the exercise of options granted to our non-employee directors could be withheld until the payment of taxes due (if any) with respect to the grant and exercise of such options.

For more information concerning our share option plans and options granted to directors and an executive officer see "Item 6.E: Share Ownership."

Compensation Policy and Approval Process of Directors' and Officers' Terms of Service and Employment

On December 12, 2012, amendment no. 20 to the Companies Law, or Amendment No. 20, became effective. Amendment No. 20 revised the approval process of arrangements with "office holders" as to their terms of service or employment, including the grant of an exemption, insurance, undertaking to indemnify or indemnification, retirement bonuses and any other benefit, payment or undertaking to pay any such amounts, given due to service or employment, or together, the Terms of Service and Employment. An "office holder" is defined under the Companies Law as a general manager, chief business manager, vice general manager, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, and a director, or manager directly subordinate to the general manager. Each person identified as a director or member of our senior management in the first table in the Item is an office holder.

Compensation Policy

Amendment No. 20 requires the board of directors of a public company to adopt a policy with respect to the Terms of Service and Employment of office holders, after taking into consideration the recommendations of the compensation committee. Amendment No. 20 further provides for the approval of the compensation policy by the company's shareholders with a "special majority" requirement, i.e. the affirmative vote of the holders of a majority of the shares present, in person or by proxy, and voting on the matter provided that at least one of the following conditions is met: (i) the shares voting in favor of the matter include at least a majority of the shares voted by shareholders who are not controlling shareholders and who do not have a personal interest in the approval of the compensation policy (or the transaction, as the case may be) or (ii) the total number of shares voted against the compensation policy by shareholders referenced under (i) does not exceed 2% of the company's outstanding voting rights.

A compensation policy for a period exceeding three years is required to go through the complete approval process once every three years. In addition, the board of directors is required to periodically examine the compensation policy and the need for adjustments based on the considerations in determining a compensation policy in the event of a material change in the circumstances prevailing during the adoption of the compensation policy or for other reasons.

At our annual shareholders meeting held during 2016, or the 2016 Shareholders Meeting, our shareholders approved our updated compensation policy, or the Compensation Policy.

Our Compensation Policy is designed to support the achievement of our long term work plan goals and ensure that: (i) officer's interests are as closely as possible aligned with the interests of our shareholders; (ii) the correlation between pay and performance will be enhanced; (iii) we will be able to recruit and retain top level senior managers capable of leading us to further business success and facing the challenges ahead; (iv) officers will be motivated to achieve a high level of business performance without taking unreasonable risks; and (v) an appropriate balance will be established between different compensation elements – fixed vs. variable, short term vs. long term and cash payments vs. equity based compensation. Our Compensation Policy is filed by us as Exhibit 4.23 under Item 19.

Approval Process of Terms of Service and Employment of Office Holders

Amendment No. 20 provides that the process for approval of Terms of Service and Employment of office holders, that are required to be for the benefit of the company, is as follows:

- With respect to our chief executive officer, a controlling shareholder or a relative of a controlling shareholder, approval is required by the (i) compensation committee, (ii) board of directors and (iii) company's shareholders with the "special majority" described above (in that order). Subject to certain conditions, the Israeli Companies Law provides an exemption from the shareholder approval requirement in connection with the approval of the Terms of Service and Employment of a CEO candidate.
- With respect to a director, approval is required by the (i) compensation committee, (ii) board of directors and (iii) company's shareholders with a regular majority (in that order).
- With respect to any other office holder, approval is required by the compensation committee and the board of directors (in that order); however, in the event of an update of existing Terms of Service and Employment, which the Compensation Committee confirms is not material, the approval of the compensation committee is sufficient.

In the event the transaction with any office holder is not in accordance with the compensation policy, the approval of the company's shareholders, by "special majority," is also required. In the event the company's shareholders do not approve the compensation of the CEO or other office holders (who are not directors, controlling shareholders or relatives of the controlling shareholders), the compensation committee and board of directors may, in special situations, approve the transaction, subject to their providing detailed reasons and after discussion and examination of the rejection by the company's shareholders. The Companies Regulations (Relief in Related Party Transactions), 2000, promulgated under the Companies Law, or the Relief Regulations, provide additional temporary or permanent relief from the shareholder approval requirement under certain circumstances.

C. Board Practices

We are a “controlled company” as defined in Section 801 of the NYSE American LLC Company Guide. As a result, we are exempt from certain of the NYSE American LLC corporate governance requirements, including the requirement that a majority of the board of directors be independent, the requirement applicable to the nomination process of directors and the requirements applicable to the determination or recommendation of executive compensation by a committee comprised of independent directors or by a majority of the independent directors and the additional requirements concerning compensation committee independence, compensation advisor engagement and independence.

According to the provisions of our Second Amended and Restated Articles, or the Articles, and the Companies Law, our Board convenes in accordance with our requirements, and is required to convene at least once every three months. Furthermore, the Companies Law provides that the board of directors may also adopt resolutions without actually convening, provided that all the directors entitled to participate in the discussion and vote on a matter that is brought for resolution agree not to convene for discussion of the matter.

The chief executive officer serves at the discretion of the board of directors.

Terms of Directors

Our Board currently consists of six members, including two external directors. Pursuant to our Articles, unless otherwise prescribed by resolution adopted at a general meeting of our shareholders, our Board shall consist of not less than four (4) nor more than eight (8) directors (including the external directors). Except for our two external directors, the members of our Board are elected annually at our annual shareholders’ meeting and remain in office until the next annual shareholders’ meeting, unless the director has previously resigned, vacated his office, or was removed in accordance with the Articles. The most recent annual meeting, or the 2018 Shareholders Meeting, was held on June 21, 2018. Our Board may elect additional members to the Board, to serve until the next shareholders’ meeting, so long as the number of directors on the Board does not exceed the maximum number established according to our Articles.

The members of our Board do not receive any additional remuneration upon termination of their services as directors.

External Directors

We are subject to the provisions of the Companies Law, which requires that we, as a public company, have at least two external directors.

Under the Companies Law, a person may not be appointed as an external director if he or his relative, partner, employer or any entity under his control has or had during the two years preceding the date of appointment any affiliation with the company, any entity controlling the company or any entity controlled by the company or by this controlling entity or, in a company that does not have a controlling shareholder, in the event that he has affiliation, at the time of his appointment, to the chairman of the board, chief executive officer, a 5% shareholder or the highest ranking officer in the financial field. The term “affiliation” includes: an employment relationship, a business or professional relationship maintained on a regular basis, control, and service as an office holder. No person can serve as an external director if the person’s position or other business creates, or may create, conflicts of interest with the person’s responsibilities as an external director, or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. In addition, an individual may not be appointed as an external director if she or he, or her or his relative, partner, employer, supervisor, or an entity she or he controls, has other than negligible business or professional relations with any of the persons with which the external director may not be affiliated, even if such relations are not routine, or if she or he received any consideration, directly or indirectly, in addition to the remuneration to which she or he are entitled and to reimbursement of expenses, for acting as a director in the company. The Compensation Regulations set the range of compensation and the terms of other compensation that may be paid to statutory external directors.

Pursuant to the Companies Law, the election of an external director for the initial term requires the affirmative vote of a majority of the shares present, in person or by proxy, and voting on the matter, provided that either: (i) at least a majority of the shares of non-controlling shareholders and shareholders who do not have a personal interest in the resolution (excluding a personal interest that is not related to a relationship with the controlling shareholders) are voted in favor of the election of the external director, or (ii) the total number of shares of non-controlling shareholders and of shareholders who do not have a personal interest in the resolution (excluding a personal interest that is not related to a relationship with the controlling shareholders) voted against the election of the external director does not exceed two percent of the outstanding voting power in the company.

The initial term of an external director is three years. An external director may be re-elected to serve for two additional three-year terms in one of the two following methods: (i) the board of directors proposed the nomination of the external director for an additional term and her or his appointment is approved by the shareholders in the manner required to appoint external directors for an initial term as set forth above, or (ii) in the event a shareholder holding 1% or more of the voting rights nominates the external director for an additional term or in the event the external director nominates himself or herself for an additional term, the nomination is required to be approved by a majority of the votes cast by the shareholders of the company; provided that: (x) the votes of controlling shareholders, the votes of shareholders who have a personal interest in the approval of the appointment of the external director, other than a personal interest that is not as a result of such shareholder’s connections to the controlling shareholder, and abstaining votes are excluded from the counting of votes and (y) the aggregate votes cast by shareholders in favor of the nomination that are counted for purposes of calculating the majority exceeds two percent of the voting rights in the company. The external director nominated by shareholders may not be a related or competing shareholder or a relative of such shareholder at the date of appointment and may not have an affiliation to a related or competing shareholder at the date of appointment or for the two year period prior to the appointment. A “related or competing shareholder” is defined by the Companies Law as the shareholder that proposed the nomination or a significant shareholder (a shareholder holding five percent or more of the outstanding shares of a company or of the voting rights in a company), provided that at the date of appointment of the external director such shareholder, its controlling shareholder or a corporation controlled by either of them, have business connections with the company or are competitors of the company. The term “affiliation” is defined as set forth above. In addition, Israeli companies listed on certain stock exchanges outside Israel, including the NYSE American LLC, such as our company, may appoint an external director for additional terms of not more than three years each subject to certain conditions. Such conditions include the determination by the audit committee and board of directors, that in view of the external director’s professional expertise and special contribution to the company’s board of directors and its committees, the appointment of the external director for an additional term is in the best interest of the company.

All of the external directors of a company must be members of its audit committee and compensation committee and at least one external director is required to serve on every committee authorized to exercise any of the powers of the board of directors. Our external directors are currently Mordechai Bignitz and Dr. Michael J. Anghel.

Under the Companies Law an external director cannot be dismissed from office unless: (i) the board of directors determines that the external director no longer meets the statutory requirements for holding the office, or that the external director is in breach of the external director's fiduciary duties and the shareholders vote, by the same majority required for the appointment, to remove the external director after the external director has been given the opportunity to present his or her position; (ii) a court determines, upon a request of a director or a shareholder, that the external director no longer meets the statutory requirements of an external director or that the external director is in breach of his or her fiduciary duties to the company; or (iii) a court determines, upon a request of the company or a director, shareholder or creditor of the company, that the external director is unable to fulfill his or her duty or has been convicted of specified crimes. For a period of two years following the termination of services as an external director, the company, its controlling shareholder and any entity the controlling shareholder controls may not provide any benefit to such former external director, directly or indirectly. The prohibited benefits include the appointment as an office holder in the company or the controlled entity, employment of, or receipt of professional services from, the former external director for compensation, including through an entity such former external director controls. The same prohibition applies to the former external director's spouse and child for the same two-year period and to other relatives of the external director for a period of one year following the termination of services as an external director.

The Companies Law requires that at least one of the external directors have "Accounting and Financial Expertise" and the other external directors have "Professional Competence." Under the applicable regulations, a director having accounting and financial expertise is a person who, due to his or her education, experience and talents is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him or her to understand in depth the company's financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the applicable regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree in an area relevant to the company's business, or has at least five years' experience in a senior position in the business management of a corporation with a substantial scope of business, in a senior position in the public service or a senior position in the field of the company's main business. Our Board determined that both Mordechai Bignitz and Dr. Michael J. Anghel have the requisite accounting and financial expertise.

Our Board further determined that at least two directors out of the whole Board shall be required to have accounting and financial expertise pursuant to the requirements of the Companies Law and previously determined that Shlomo Nehama shall be designated as an additional accounting and financial expert.

Independent Directors Pursuant to the Companies Law

In addition to the external director, the Companies Law includes another category of directors, which is the “independent” director. An independent director is either an external director or a director appointed or classified as such who meets the same non-affiliation criteria as an external director, as determined by the company’s audit committee, and who has not served as a director of the company for more than nine consecutive years (subject to the right granted to certain companies, including companies whose shares are listed on the NYSE American LLC, to permit independent directors to serve as such for periods exceeding nine years). For these purposes, ceasing to serve as a director for a period of two years or less would not be deemed to sever the consecutive nature of such director’s service.

Pursuant to the Companies Law, we, as a public company, may include in our articles of association a provision providing that a specified number of our directors be independent directors or may adopt a standard provision providing that a majority of our directors be independent directors or, if there is a controlling shareholder or a 25% or more shareholder, that at least one-third of our directors be independent directors. We have not included a provision requiring that a certain percentage of the members of our Board be independent directors.

Independent Directors pursuant to the NYSE American LLC Requirements

In general, the NYSE American LLC Company Guide requires that a NYSE American LLC listed company have a majority of independent directors, as defined under the NYSE American LLC Company Guide, on its board of directors. Because we are a “controlled company” as defined in Section 801 of the NYSE American LLC Company Guide, we are exempt from this requirement. If the “controlled company” exemption would cease to be available to us under the NYSE American LLC Company Guide, we may instead elect to follow Israeli law.

Our Board determined that three of the members of our Board, Messrs. Bignitz and Anghel and Ms. Leviant, are “independent” within the meaning of Section 803A of the NYSE American LLC Company Guide.

Alternate Directors

Our Articles provide that, subject to the Board’s approval, a director may appoint an individual, by written notice to us, to serve as an alternate director. The following persons may not be appointed nor serve as an alternate director: (i) a person not qualified to be appointed as a director, (ii) an actual director, or (iii) another alternate director. Any alternate director shall have all of the rights and obligations of the director appointing him or her, except the power to appoint an alternate (unless the instrument appointing him or her expressly provides otherwise). The alternate director may not act at any meeting at which the director appointing him or her is present. Unless the appointing director limits the time period or scope of any such appointment, such appointment is effective for all purposes and for an indefinite time, but will expire upon the expiration of the appointing director’s term. There are currently no alternate directors.

Duties of Office Holders and Approval of Certain Actions and Transactions under the Companies Law

The Companies Law codifies the duty of care and fiduciary duties that an office holder has to our company.

The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the appropriateness of a given action brought for his or her approval or performed by the office holder by virtue of his or her position and (ii) all other information of importance pertaining to the foregoing actions.

The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his or her personal affairs or other positions, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal gain for himself or herself or for others, and disclosing to the company any information or documents relating to the company's affairs which the office holder has received due to his or her position as such. A company can approve actions by an office holder that could be deemed to be in breach of his or her duty of loyalty provided that: (i) the office holder acted in good faith and the action or its approval do not prejudice the company's interests, and (ii) the office holder disclosed to the company, a reasonable time prior to the discussion of the approval, the nature of his or her personal interest in the action, including any material fact or document. The approval of such actions is obtained based on the requirements for approval of transactions in which an office holder has a personal interest. The Companies Law provides that for purposes of determining the approval process, "actions" (defined as any legal action or inaction) are treated as "transactions" and "material actions" (defined as an action that may materially affect the company's profitability, assets or liabilities) are treated as "extraordinary transactions." An "extraordinary transaction" is defined as a transaction that is not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities. One of the roles of the audit committee under the Companies Law is to determine whether a transaction is or is not an extraordinary transaction. These transactions and extraordinary transactions are required to be for the benefit of the company and are subject to a special approval process as set forth below. The Companies Law requires that an office holder of a company promptly disclose to the company's board of directors any personal interest that he or she may have, and all related material information known to him or her in connection with any existing or proposed transaction by the company. This disclosure must be made by the office holder, whether orally or in writing, no later than the first meeting of the company's board of directors which discusses the particular transaction.

An office holder is deemed to have a "personal interest" if he has a personal interest in an act or transaction of a company, including a personal interest of his relative or of a corporation in which such office holder or his relative are a 5% or greater shareholder, but excluding a personal interest stemming from the fact of a shareholding in the company. The term "personal interest" also includes a personal interest of a person voting pursuant to a proxy provided to him from another person even if such other person does not have a personal interest and the vote of a person that received a proxy from a shareholder that has a personal interest is viewed as a vote of the shareholder with the personal interest, all whether the discretion with respect to the voting is held by the person voting or not.

Any transaction or action, whether material or extraordinary or not, cannot be approved unless they are not adverse to the company's interests. In the case of a transaction that is not an extraordinary transaction or an action that is not a material action, after the office holder complies with the above disclosure requirements, only board approval is required. In the case of an extraordinary transaction or a material action, the company's audit committee and board of directors, and, under certain circumstances, the shareholders of the company, must approve the action or transaction, in addition to any approval stipulated by the articles of the company.

For a discussion concerning the determination whether an action is material or not and whether a transaction is extraordinary or not and for a review on the approval process for the terms of services of officers, see "Committees of the Board of Directors – Audit Committee" below.

A director who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee may not be present at this meeting or vote on this matter, provided that an office holder who has a personal interest may be present for the presentation of the transaction in the event the chairman of the audit committee or the chairman of the board, as the case may be, determine that she or he are required for the presentation of the transaction, unless a majority of the members of the board of directors or audit committee, as the case may be, have a personal interest in the matter, in which case they may all be present and vote. In the event a majority of the members of the board of directors have a personal interest in a matter, such matter must be also approved by the shareholders of the company.

Committees of the Board of Directors

Audit Committee

Under the Companies Law, we, as a public company, are required to have an audit committee. The Audit Committee must be comprised of at least three members of the Board, including all of the external directors. In addition, the Companies Law requires that the majority of the members of the audit committee be "independent" (as such term is defined under the Israeli Companies Law) and that the chairman of the audit committee be an external director. The Companies Law further provides that the following may not be members of the audit committee: (a) the chairman of the board of directors; (b) any director employed by or providing services on an ongoing basis to the company, to a controlling shareholder of the company or an entity controlled by a controlling shareholder of the company; (c) a director who derives most of its income from a controlling shareholder; and (d) a controlling shareholder or any relative of a controlling shareholder.

Our Audit Committee, acting pursuant to a written charter adopted based on the requirements of the Companies Law, the rules promulgated under the Exchange Act and the NYSE American LLC Company Guide, currently consists of Mordechai Bignitz, who is also the chairman of the Audit Committee, Dr. Michael Anghel and Anita Leviant. The members of our Audit Committee satisfy the respective "independence" requirements of the Securities and Exchange Commission, NYSE American LLC and Israeli law for audit committee members. During 2018, our Audit Committee met at least once each quarter.

The Companies Law provides that the roles of an audit committee are as follows: (i) monitoring deficiencies in the business management of a company, including by consulting with the internal auditor or independent accountants and suggesting methods of correction of such deficiencies to the board of directors, (ii) determining whether or not certain related party actions and transactions and actions taken by office holders that are “material actions” or “extraordinary transactions” in connection with their approval procedures as more fully described above, (iii) determining in connection with transactions with the controlling shareholder or with a third party in which the controlling shareholder has a personal interest (event if they are not extraordinary transactions) and in connection with transactions with the controlling shareholder or its relative, directly or indirectly, for the receipt of services or in connection with terms of employment or service, a duty to conduct a competitive process, supervised by the audit committee or anyone else appointed by the audit committee and based on criteria determined by the audit committee, or to determine that other procedures determined by the audit committee will be conducted, prior to execution of such transactions, all based on the type of the transaction (the audit committee is permitted to determine criteria for this matter once a year in advance), (iv) determining whether to approve actions and transactions that require audit committee approval under the Companies Law, (v) determining the method of approval of non-negligible transactions (i.e. transactions of a company with a controlling shareholder or with a third party in which the controlling shareholder has a personal interest that the audit committee determined are not extraordinary but are non-negligible), including to determine types of such transactions that will require the approval of the audit committee (the audit committee is permitted to determine a classification of transactions as non-negligible based on criteria determined once a year in advance), (vi) in a company in which the work plan of the internal auditor is approved by the board – examining the work plan before it is submitted to the board and suggesting revisions, (vii) assessing the company’s internal audit system and the performance of its internal auditor and whether the internal auditor has the resources and tools required to it for the performance of its role, taking into account, among others, the special needs and size of the company, (viii) examining the scope of work and compensation of the company’s independent auditor and (ix) setting procedures in connection with the method of dealing with complaints of employees regarding defects in the management of the company’s business and with the protection that will be provided to employees who have complained.

The actions and transactions that require audit committee approval pursuant to the Companies Law are: (i) proposed extraordinary transactions to which we intend to be a party in which an office holder has a direct or indirect personal interest, (ii) actions or arrangements which may otherwise be deemed to constitute a breach of fiduciary duty or of the duty of care of an office holder to us, (iii) certain transactions and extraordinary transaction of the company in which a “controlling shareholder,” that is, a shareholder holding the ability to direct the actions of the company, other than by virtue of being a director or holding a position with the company, including a shareholder holding twenty five percent or more of the voting rights of the company if there is no other shareholder holding over fifty percent of the voting rights of the company, has a personal interest, including certain transactions with a relative of the controlling shareholder and (iv) certain private placements of the company’s shares. In certain circumstances, some of the matters referred to above may also require shareholder approval. For more information concerning the approvals required in connection with transactions in which a controlling shareholder has a personal interest, see “Item 10.B: Memorandum of Association and Second Amended and Restated Articles.”

An audit committee may not approve an action or transaction with a controlling shareholder or with an office holder or in which they have a personal interest unless at the time of approval its composition is as required by the Companies Law.

Our Audit Committee provides assistance to our Board in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. Under the Sarbanes-Oxley Act of 2002, the Audit Committee is also responsible for the appointment, compensation, retention and oversight of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. However, under the Companies Law the appointment of independent auditors requires the approval of our shareholders, accordingly, the appointment of the independent auditors is approved and recommended to the shareholders by our Audit Committee and Board and ratified by the shareholders. Furthermore, pursuant to our Articles, our shareholders have the authority to determine the compensation of the independent auditors (or empower the Board to establish their remuneration, as they have in the annual shareholders meeting held during 2016) and such compensation is approved by our Board following a recommendation of the Audit Committee.

The Audit Committee discussed with the independent registered public accounting firm the matters covered by Statement on Auditing Standards No. 114, as well as their independence, and was satisfied as to the independent registered public accounting firm's compliance with said standards.

Compensation Committee

Amendment No. 20 requires the board of directors of a public company to appoint a compensation committee that shall consist of no less than three members, that will include all of external directors (which will constitute a majority of its members of the committee), and that the remainder of the members of the compensation committee be directors whose terms of service and employment were determined pursuant to the Compensation Regulations. In addition, Amendment No. 20 imposes the same restrictions on the actions and membership in the compensation committee as are discussed above under "Audit Committee" with respect to, among other things, the requirement that an external director serve as the chairman of the committee and the list of persons who may not serve on the committee. Our Compensation Committee currently consists of Dr. Michael J. Anghel, who is also the chairman of the Compensation Committee, Mordechai Bignitz and Anita Leviant.

Amendment No. 20 sets forth the roles of the compensation committee as follows: (i) to recommend to the board on a compensation policy for office holders and to recommend to the board, once every three years, on the approval of the continued validity of the compensation policy for a period that was determined for a period exceeding three years; (ii) to recommend to the board to update the compensation policy from time to time and to examine its implementation; (iii) to determine whether to approve the Terms of Service and Employment of office holders that require the committee's approval; and (iv) to exempt a transaction from the requirement for shareholders approval (as more fully described below).

In February 2016, the Companies Law was amended to provide that an audit committee that meets the criteria for the composition of a compensation committee, such as our Audit Committee, can also act as the compensation committee.

Advisory Committee

Our Advisory Committee is responsible for, among other things, reviewing developments in corporate governance requirements and practices and other regulatory developments and recommending guidelines and policies to our Board in such areas and evaluating and providing recommendations to our Board with respect to such matters as are requested by our Board from time to time. The Advisory Committee is presently composed of two members: Ran Fridrich and Anita Leviant.

Indemnification, Exemption and Insurance of Executive Officers and Directors

Consistent with and subject to the provisions of the Companies Law, our Articles permit us to procure insurance coverage for our office holders, exempt them from certain liabilities and indemnify them, to the fullest extent permitted by law.

The Israeli Securities Law, 5728-1968, or the Securities Law, and the Companies Law, authorize the Israeli Securities Authority to impose administrative sanctions against companies and their office holders for certain violations of the Israeli Securities Law or the Companies Law. These sanctions include monetary sanctions and certain restrictions on serving as a director or senior officer of a public company for certain periods of time. The maximum amount of the monetary sanctions that could be imposed upon individuals is a fine of NIS 1 million (equivalent to approximately €0.24 million), plus payments to persons who suffered damages as a result of the violation in an amount equal to the higher of: (i) compensation for damages suffered by all injured persons, up to 20% of the fine imposed on the violator, or (ii) the amount of profits earned or losses avoided by the violator as a result of the violation, up to the amount of the applicable monetary sanction.

The aforementioned provisions of the Companies Law and the Securities Law generally provide that a company cannot indemnify or provide liability insurance to cover monetary sanctions. However, these provisions do permit reimbursement by indemnification and insurance of specific liabilities. Specifically, legal expenses (including attorneys' fees) incurred by an individual in the applicable administrative enforcement proceeding and any compensation payable to injured parties for damages suffered by them as described in clause (i) of the immediately preceding paragraph are permitted to be reimbursed via indemnification or insurance, provided that such reimbursements are permitted by the company's articles of association.

Indemnification

As permitted by the Companies Law, our Articles provide that we may indemnify an office holder in respect of a liability or expense which is imposed on him or incurred by him as a result of an action taken in his capacity as an office holder of the Company in connection with the following:

- a. monetary liability imposed on the office holder in favor of a third party by a judgment, including a settlement or a decision of an arbitrator which is given the force of a judgment by court order;

- b. reasonable litigation expenses, including legal fees, incurred by the office holder as a result of an investigation or proceeding instituted against such office holder by a competent authority, which investigation or proceeding has ended without the filing of an indictment or in the imposition of financial liability in lieu of a criminal proceeding, or has ended in the imposition of a financial obligation in lieu of a criminal proceeding for an offence that does not require proof of criminal intent (the phrases “proceeding that has ended without the filing of an indictment” and “financial obligation in lieu of a criminal proceeding” shall have the meanings ascribed to such phrases in Section 260(a)(1a) of the Companies Law) or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the office holder in favor of an injured party as set forth in Section 52[54](a)(1)(a) of the Securities Law, and expenses that the office holder incurred in connection with a proceeding under Chapters H’3, H’4 or I’1 of the Securities Law or in connection with Article D of Chapter Four of Part Nine of the Companies Law, including reasonable legal expenses, which term includes attorney fees;
- c. reasonable litigation expenses, including legal fees, which the office holder has incurred or is obliged to pay by the court in proceedings commenced against him by the Company or in its name or by any other person, or pursuant to criminal charges of which he is acquitted or criminal charges pursuant to which he is convicted of an offence which does not require proof of criminal intent; and
- d. Expenses, including reasonable legal fees, including attorney fees, incurred by the office holder with respect to a proceeding in accordance with the Restrictive Trade Practices Law, 1988, as amended, or the Restrictive Trade Practices Law.

Our Articles authorize us, from time to time and subject to any provision of the law, to undertake in advance to indemnify an office holder for any of the following: (i) any liability as set out in (a) above, provided that the undertaking to indemnify is limited to the classes of events which in the opinion of our Board can be anticipated in light of our activities at the time of giving the indemnification undertaking, and for an amount and/or criteria which our Board has determined are reasonable in the circumstances and, the events and the amounts or criteria that our Board deem reasonable in the circumstances at the time of giving of the undertaking are stated in the undertaking; (ii) any liability stated in (b) through (d) above; and any matter permitted by applicable law. Our Articles also authorize us to indemnify an office holder after the occurrence of the event which is the subject of the indemnity and with respect to any matter permitted by applicable law.

At the annual shareholders meeting held on June 20, 2012, our shareholders authorized us to revise the indemnification and insurance provisions of our Articles to reflect certain amendments to the Companies Law and Securities Law and further authorized us, following the approval of our Audit Committee and Board, to provide indemnification undertakings to each of our current and future directors and officers. At our annual shareholders meeting held on June 21, 2018, or the 2018 Shareholders Meeting, our shareholders authorized us to revise the indemnification, insurance and exemption provisions of our Articles and further authorized us, following the approval of our Compensation Committee and Board of Directors, to provide amended indemnification undertakings to each of our current and future office holders. Such approval also included the requisite majority required to approve the provision of indemnification undertakings to our Board members who are also deemed to be “controlling shareholders,” Messrs. Nehama, Fridrich and Raphael.

The indemnification undertakings provided by us are limited to certain categories of events and the aggregate indemnification amount that we shall pay (in addition to sums payable by insurance companies) for monetary liabilities imposed on, or incurred by, the director or officer pursuant to all the indemnification undertakings issued by us to our directors and officers is also limited. Under the indemnification undertakings provided by us prior to the 2018 Shareholders Meeting, the aggregate indemnification amount payable by us for monetary liabilities may not exceed an amount equal to the higher of: (i) fifty percent (50%) of our net equity at the time of indemnification, as reflected on our most recent financial statements at such time, or (ii) our annual revenue in the year prior to the time of indemnification. Under the indemnification undertakings provided by us subsequent to the 2018 Shareholders Meeting and in line with the limitation currently included in our Compensation Policy, the aggregate indemnification amount payable by us for monetary liabilities, shall not exceed an amount equal to 25% of our shareholders' equity according to the latest reviewed or audited consolidated financial statements approved by our Board of Directors prior to the date on which the indemnification amount is paid. Our previous form of indemnification undertaking is attached hereto as Exhibit 4.3 and our current form of indemnification undertaking, granted to officer holders commencing the 2018 Shareholders Meeting, is attached hereto as Exhibit 4.4.

In such indemnification undertakings, we also, among other things, undertake to (i) produce collateral, security, bond or any other guarantee that the director or officer may be required to produce as a result of any interim legal procedure (other than criminal procedures involving the proof of criminal thought), all up to the maximum indemnification amount set forth above; and (ii) maintain a liability insurance policy with a reputable insurer to the extent permitted by the Companies Law, for all of our directors and officers, in a total amount of not less than \$10 million during the period the recipient of the indemnity undertaking serves as a member of our board of directors or as an officer and for a period of seven years thereafter.

Based on the previous approvals of our Audit and Compensation Committee, Board and shareholders, we granted indemnification undertakings as explained above to each of our office holders and expect that we will provide them to our future office holders.

Exemption

Under the Companies Law, an Israeli company may not exempt an office holder from liability for a breach of his duty of loyalty, but may exempt in advance an office holder from his liability to the company, in whole or in part, for a breach of his duty of care, provided that in no event shall a director be exempt from any liability for damages caused as a result of a breach of his duty of care to the company in the event of a "distribution" (as defined in the Companies Law). Our Articles authorize us to, subject to the provisions of the Companies Law, exempt an office holder from all or part of such office holder's responsibility or liability for damages caused to us due to any breach of such office holder's duty of care towards us.

At our 2018 Shareholders Meeting, our shareholders authorized an amendment to our Articles, in line with the limitation currently included in our Compensation Policy, providing that we may not, subsequent to the 2018 Shareholders Meeting, grant exemption letters to office holders for an action or transaction in which a controlling shareholder (as such term is defined in the Companies Law) or any other office holder (including an office holder who is not the office holder we have undertaken to exempt) has a personal interest (as such term is defined in the Companies Law). At our 2018 Shareholders Meeting, our shareholders also approved a new form of Indemnification Undertaking and Exemption to be granted to all of our current and future office holders, which includes the foregoing limitation and further provides that no exemption will be granted in respect of any counterclaim of the Company filed against the office holder in response to a claim filed by the office holder against the Company, except if the office holder's claim relates to his or her labor law rights and/or his or her individual employment agreement with the Company or any of its Subsidiaries.

As noted above, we granted the new form of Indemnification Undertaking and Exemption to all our current directors and officers and intend to provide it to our future directors and officers.

Insurance

As permitted by the Companies Law, our Articles provide that we may enter into an agreement for the insurance of the liability of an office holder, in whole or in part, with respect to any liability which may be imposed upon such office holder as a result of an act performed by same office holder in his capacity as an office holder of the Company, for any of the following: (a) a breach of a cautionary duty toward the Company or toward another person; (b) a breach of a fiduciary duty toward the Company, provided the office holder acted in good faith and has had reasonable ground to assume that the act would not be detrimental to the Company; (c) a monetary liability imposed upon an office holder toward another; (d) reasonable litigation expenses, including attorney fees, incurred by the office holder as a result of an administrative enforcement proceeding instituted against him (without derogating from the generality of the foregoing, such expenses will include a payment imposed on the office holder in favor of an injured party as set forth in Section 52[54](a)(1)(a) of the Securities Law and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law or in connection with Article D of Chapter Four of Part Nine of the Companies Law, including reasonable legal expenses, which term includes attorney fees); and (e) expenses, including reasonable litigation expenses, including attorney fees, incurred by the office holder with respect to a proceeding in accordance with the Restrictive Trade Practices Law. Our Articles further permit us to enter into such an agreement with respect to any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an office holder in the Company.

As stated above, in the indemnification undertakings approved by our Audit Committee, Board and shareholders and provided to our directors and officers, we have undertaken to maintain a liability insurance policy with a reputable insurer to the fullest extent currently permitted by the Companies Law and our Articles, for all of our directors and officers, in a total amount of not less than \$10 million during the period the recipient of the indemnity undertaking serves as a member of our board of directors or as an officer, and for a period of seven years thereafter.

The current coverage of our directors' and officers' liability insurance policy is \$15 million. At our 2018 Shareholders Meeting, our shareholders approved, following the approval of our Compensation Committee and Board, the terms and conditions for the renewal, extension and/or replacement, from time to time, of our directors' and officers' liability insurance policy for all directors and officers of our company and its subsidiaries, who may serve from time to time, or the New Policy, as follows: (i) the coverage limit per claim and in the aggregate under the New Policy may not exceed an amount representing an increase of 20%, as compared to the current coverage limit; and (ii) the premium paid for such New Policy may be up to \$230,000.

In addition, in reliance on the Relief Regulations, our Compensation Committee and Board determines that the insurance provided to our office holders who are deemed to be controlling shareholders is: (i) upon terms identical to those provided to the company's other officers and directors, (ii) on market conditions, and (iii) not likely to materially affect the company's profitability, assets or liabilities. Therefore, the approval of our shareholders for the provision of liability insurance under the New Policy to our officer holders who are deemed to be controlling shareholders is not required. Based on these approvals, we have obtained directors' and officers' liability insurance covering our directors and officers.

Limitations on Indemnification, Exemption and Insurance

The Companies Law provides that a company may not exempt or indemnify an office holder nor enter into an insurance contract which would provide coverage for liability incurred as a result of any of the following: (a) a breach by the office holder of his or her duty of loyalty (however, a company may insure and indemnify against such breach if the office acted in good faith and had reasonable cause to assume that his act would not prejudice the company's interests); (b) a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly, unless made in negligence only; (c) any act or omission done with the intent to derive an illegal personal benefit; or (d) any fine, civil fine, monetary sanction or penalty levied against the office holder. According to the Securities Law, a company cannot insure or indemnify an office holder for an Administrative Enforcement procedure, regarding payments to victims of the infringement or for expenses expended by the officer with respect to certain proceedings held concerning him or her, including reasonable litigation expenses and legal fees.

Internal Auditor

Under the Companies Law, our Board is required to appoint an internal auditor proposed by the Audit Committee. The role of the internal auditor is to examine, among other things, whether our activities comply with the law and orderly business procedure. The internal auditor may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of our independent auditor firm. The Companies Law defines the term "interested party" to include a person who holds 5% or more of the company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager, or any person who serves as a director or as the general manager. Pursuant to our Articles, our Audit Committee reviews and approves the work program of our internal auditor. Mr. Doron Cohen of Fahn, Kanne & Co., an Israeli accounting firm, serves as our internal auditor.

D. Employees

As of December 31, 2018, 2017 and 2016, we had ten (10) employees. As of December 31, 2018, all of our employees were in management, finance and administration. Nine employees were located in Israel and one employee is located in Spain.

All of our employees who have access to confidential information are required to sign a non-disclosure agreement covering all of our confidential information that they might possess or to which they might have access.

We believe our relations with employees are satisfactory. We have never experienced a strike or work stoppage. We believe our future success will depend, in part, on our ability to continue to attract, retain, motivate and develop highly qualified personnel.

Israeli labor laws and regulations are applicable to our employees located in Israel. Israeli labor laws govern, among other things, the length of the workday, minimum wages for employees, procedures for hiring and dismissing employees, annual leave and sick days. In addition, the Israeli Severance Pay Law, 1963, or the Severance Pay Law, generally requires the payment of severance pay equal to one month's salary, based on the most recent salary, for each year of employment or a prorated portion thereof upon the termination of employment of an employee. Unless otherwise indicated in the employment agreement or otherwise required by applicable law and labor orders, the employee is not entitled to severance pay in the event she or he willingly resigns. In order to fund, or partially fund as hereinafter explained, any future liability in connection with severance pay, we make payments equal to 8.33% of the employee's salary every month, to various managers' insurance policies or similar financial instruments.

In the event the employment agreement with an employee provides that the provisions of Section 14 of the Severance Pay Law will apply, our contributions for severance pay are in lieu of our severance liability and the employee is entitled to receive such contributions whether her or his employment is terminated by us or she or he resigns. Therefore, upon fulfillment of our obligation to make a monthly contribution to the managers' insurance policies or similar financial instruments in the amount of 8.33% of the employee's monthly salary and of the other terms of the relevant permit with respect to this arrangement, no additional payments must later be made to the employee on account of severance pay upon termination of the employment relationship. As required by Israeli law, our employees are also provided with a contribution toward their retirement that amounts to 12.5% of wages, of which the employee contributes 6%. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration, and additional sums towards compulsory health insurance.

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 1, 2019, of (i) each of our directors and (ii) each member of our senior management. All of the information with respect to beneficial ownership of the ordinary shares is given to the best of our knowledge and has been furnished in part by the respective directors and members of senior management.

Name of Beneficial Owner	Number of Shares Beneficially Held (1)	Percent of Class
Shlomo Nehama ⁽²⁾⁽⁵⁾	4,016,842	37.6%
Hemi Raphael ⁽³⁾⁽⁵⁾	3,060,369	28.7%
Ran Fridrich ⁽⁴⁾⁽⁵⁾	2,722,632	25.5%
Anita Leviant ⁽⁶⁾	9,000	*
Mordechai Bignitz ⁽⁶⁾	6,583	*
Dr. Michael J. Anghel	-	-
Kalia Weintraub	-	-
Ori Rosenzweig	-	-

* Less than one percent of the outstanding ordinary shares. See additional details below.

- (1) As used in this table, “beneficial ownership” means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from March 1, 2019 through the exercise of any option or warrant. Ordinary shares subject to options or warrants that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages are based upon 10,679,094 ordinary shares outstanding as of March 1, 2019. This number of outstanding ordinary shares does not include a total of 258,046 ordinary shares held at that date as treasury shares under Israeli law, all of which were repurchased by us. For so long as such treasury shares are owned by us they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to our shareholders nor are they entitled to participate in, be voted at or be counted as part of the quorum for, any meetings of our shareholders.
- (2) According to information provided by the holders, the 4,016,842 ordinary shares beneficially owned by Mr. Nehama consist of: (i) 3,551,869 ordinary shares held by Nechama Investments, an Israeli company, which constitute approximately 33.3% of our outstanding ordinary shares, and (ii) 464,973 ordinary shares held directly by Mr. Nehama, which constitute approximately 4.4% of our outstanding ordinary shares. Mr. Nehama, as the sole officer, director and shareholder of Nechama Investments, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by Nechama Investments, which constitute (together with the shares held directly by him) approximately 37.6% of our outstanding ordinary shares.
- (3) The 3,060,369 ordinary shares beneficially owned by Mr. Raphael consist of: (i) 2,605,845 ordinary shares held by Kanir, which constitute approximately 24.4% of our outstanding share capital, (ii) 314,514 ordinary shares held by a BVI private company wholly-owned by Mr. Raphael, which constitute approximately 2.9% of our outstanding shares and (iii) 140,010 ordinary shares held directly by Mr. Raphael, which constitute approximately 1.3% of our outstanding shares. Mr. Raphael, by virtue of his position as a director and majority shareholder of Kanir Investments Ltd., or Kanir Ltd., the general partner in Kanir, and his position as a limited partner in Kanir, may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Mr. Raphael disclaims beneficial ownership of the shares held by Kanir, except to the extent of his pecuniary interest therein, if any. In addition, Mr. Raphael, as the sole shareholder of such private company, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by the BVI private company.
- (4) The 2,722,632 ordinary shares beneficially owned by Mr. Fridrich consist of: (i) 2,605,945 ordinary shares held by Kanir, which constitute approximately 24.4% of our outstanding share capital and (ii) 116,787 ordinary shares held directly by Mr. Fridrich, which constitute approximately 1.1% of our outstanding shares. Mr. Fridrich, by virtue of his position as a director of Kanir Ltd. and his position as a limited partner in Kanir, may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Mr. Fridrich disclaims beneficial ownership of the shares held by Kanir, except to the extent of his pecuniary interest therein, if any.
- (5) By virtue of the 2008 Shareholders Agreement between Nechama Investments and Kanir (see “Item 7.A: Major Shareholders”), Mr. Nehama, Nechama Investments, Kanir and Messrs. Raphael and Fridrich may be deemed to be members of a group that holds shared voting power with respect to 6,157,714 ordinary shares, which together constitute approximately 57.7% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,280,958 ordinary shares, which constitute 49.5% of our outstanding ordinary shares. Accordingly, taking into account the shares directly held by Messrs. Nehama, Raphael (taking into account also shares held by the private company wholly-owned by him) and Fridrich, they may be deemed to beneficially own approximately 62%, 61.9% and 58.8%, respectively, of the outstanding ordinary shares. Mr. Nehama and Nechama Investments both disclaim beneficial ownership of the ordinary shares beneficially owned by Kanir and Kanir Ltd., Kanir and Messrs. Raphael and Fridrich all disclaim beneficial ownership of the shares held by Nechama Investments.
- (6) (i) Anita Leviant holds currently exercisable options to purchase 9,000 ordinary shares with expiration dates ranging from August 1, 2019 to August 1, 2027 and exercise prices per share ranging between \$4.7 - \$9.37 and (ii) Mordechai Bignitz holds currently exercisable options to purchase 6,583 ordinary shares with expiration dates ranging from December 20, 2021 to August 1, 2027 and exercise prices per share ranging between \$5.55 - \$9.37.

Our directors currently hold, in the aggregate, options to purchase 18,083 ordinary shares. The options have a weighted average exercise price of approximately \$7.84 per share and have expiration dates until 2029. During the years ended December 31, 2016, 2017 and 2018 each of Anita Leviant and Mordechai Bignitz, all members of our Board, were granted options to purchase 1,000 shares (on August 1 of each of such years) under the 1998 Plan. In addition, Dr. Michael J. Anghel was granted options to purchase 500 shares upon his appointment as external directors under the 1998 Plan. The exercise price for the underlying shares of such options is the “Fair Market Value” (as defined in the 1998 Plan) of our ordinary shares at the date of grant. The options expire ten years after their grant date. As described above under “Compensation - Compensation of Non-Executive Directors”, the options granted to our directors (for Ms. Leviant commencing in 2012 and for our external directors commencing in 2016) vest on the first anniversary of the grant date. Of the options held by our directors, options to purchase 15,583 ordinary shares are currently exercisable, options to purchase 2,000 ordinary shares will become exercisable on August 1, 2019 and options to purchase 500 ordinary shares will become exercisable on January 24, 2020.

Following the termination of his service term as external director, Mr. Ben Zeev exercised options to acquire 3,586 shares. We received an aggregate amount of approximately \$22,480 as consideration in connection with the exercise of those options. Pursuant to the terms of the 1998 Plan, the remaining options held by Mr. Ben Zeev, which were exercisable on the date on which he ceased serving as a member of our Board of Directors are due to expire three months after such date.

None of our officers currently hold options to purchase our ordinary shares.

Outstanding Options

1998 Share Option Plan for Non-Employee Directors

For more information concerning our 1998 Share Option Plan for Non-Employee Directors see “Item 6.B: Compensation.”

As of January 1, 2018, December 31, 2018 and March 1, 2019, there were 32,083, 30,416 and 29,916 ordinary shares, respectively, available for future grants under the 1998 Plan.

2000 Stock Option Plan

In 2000, we adopted the 2000 Stock Option Plan, or the 2000 Plan, to provide for grants of service and non-employee options to purchase ordinary shares to our officers, employees, directors and consultants. The 2000 Plan provides that it may be administered by the Board, or by a committee appointed by the Board, and is currently administered by our Board.

As amended, the 2000 Plan provides for the issuance of 1,772,459 ordinary shares. During 2008 we repurchased options to acquire approximately 990,000 ordinary shares from employees and such options were canceled, decreasing the amount of shares reserved for issuance the 2000 Plan. The 2000 Plan, as amended, currently terminates on August 31, 2028.

Our Board has broad discretion to determine the persons entitled to receive options under the 2000 Plan, the terms and conditions on which options are granted, and the number of ordinary shares subject thereto. Our Board delegated to our management its authority to issue ordinary shares issuable upon exercise of options under the 2000 Plan. The exercise price of the options under the 2000 Plan is determined by our Stock Option and Compensation Committee, provided, however, that the exercise price of any option granted shall not be less than eighty percent (80%) of the stock value at the date of grant of such options. The stock value at any time is equal to the then current fair market value of our ordinary shares. For purposes of the 2000 Plan (as amended), the fair market value means, as of any date, the last reported closing price of the ordinary shares on such principal securities exchange on the most recent prior date on which a sale of the ordinary shares took place.

Our Board determines the term of each option granted under the 2000 Plan, including the vesting period; provided, however, that the term of an option shall not be for more than 10 years. Unless otherwise agreed by the parties, upon termination of employment, all unvested options lapse, and generally within three months from such termination all vested but not-exercised options shall lapse.

The options granted are subject to restrictions on transfer, sale or hypothecation. Options and ordinary shares issuable upon the exercise of options granted to our Israeli employees are held in a trust until the payment of all taxes due with respect to the grant and exercise (if any) of such options.

We have elected the benefits available under the “capital gains” alternative of Section 102 of the Israeli Tax Ordinance. Pursuant to this election, capital gains derived by employees arising from the sale of shares acquired as a result of the exercise of options granted to them under Section 102, will be subject to a flat capital gains tax rate of 25% (instead of the gains being taxed as salary income at the employee’s marginal tax rate). However, as a result of this election, we will no longer be allowed to claim as an expense for tax purposes the amounts credited to such employees as a benefit when the related capital gains tax is payable by them, as we were previously entitled to do. We may change the election from time to time, as permitted by the Tax Ordinance. There are various conditions that must be met in order to qualify for these benefits, including registration of the options in the name of a trustee, or the Trustee, for each of the employees who is granted options. Each option, and any ordinary shares acquired upon the exercise of the option, must be held by the Trustee for a period commencing on the date of grant and ending no earlier than 24 months after the date of grant.

As of March 1, 2019, there were no outstanding options under the 2000 Plan. The number of additional ordinary shares available for issuance under the 2000 Plan, as of January 1, 2018, December 31, 2018 and March 1, 2019, was 595,009.

ITEM 7: Major Shareholders and Related Party Transactions**A. Major Shareholders**

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 1, 2019, by each person known by us to be the beneficial owner of 5.0% or more of our ordinary shares. Each of our shareholders has identical voting rights with respect to its shares. All of the information with respect to beneficial ownership of the ordinary shares is given to the best of our knowledge based on public filings by the shareholders (and on information provided by them).

	Ordinary Shares Beneficially Owned⁽¹⁾	Percentage of Ordinary Shares Beneficially Owned
Shlomo Nehama ⁽²⁾⁽⁵⁾⁽⁷⁾	4,016,842	37.6%
Kanir Joint Investments (2005) Limited Partnership ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	2,605,845	24.4%
The Phoenix Holdings Ltd. ⁽⁸⁾	895,618	8.39%

* Represents beneficial ownership of less than 1% of ordinary shares.

- (1) As used in this table, “beneficial ownership” means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security as determined pursuant to Rule 13d-3 promulgated under the U.S. Securities Exchange Act of 1934, as amended. For purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from March 1, 2019 through the exercise of any option or warrant. Ordinary shares subject to options or warrants that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages are based on a total of 10,679,094 ordinary shares outstanding as of March 1, 2019. This number of outstanding ordinary shares does not include a total of 258,046 ordinary shares held at that date as treasury shares under Israeli law, all of which were repurchased by us. For so long as such treasury shares are owned by us they have no rights and, accordingly, are neither eligible to participate in or receive any future dividends which may be paid to our shareholders nor are they entitled to participate in, be voted at or be counted as part of the quorum for, any meetings of our shareholders.
- (2) The 4,016,842 ordinary shares beneficially owned by Mr. Nehama consist of: (i) 3,551,869 ordinary shares held by Nechama Investments, which constitute approximately 33.3% of our outstanding ordinary shares and (ii) 464,973 ordinary shares and held directly by Mr. Nehama, which constitute approximately 4.4% of our outstanding ordinary shares. Mr. Nehama, as the sole officer, director and shareholder of Nechama Investments, may be deemed to indirectly beneficially own any ordinary shares owned by Nechama Investments, which constitute (together with his shares) approximately 37.6% of our outstanding ordinary shares.
- (3) Kanir is an Israeli limited partnership. Kanir Ltd., in its capacity as the general partner of Kanir, has the voting and dispositive power over the ordinary shares directly beneficially owned by Kanir. As a result, Kanir Ltd. may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir. Messrs. Hemi Raphael and Ran Fridrich, who are members of our Board of Directors, are the sole directors of Kanir Ltd. and Mr. Raphael is a majority shareholder of Kanir Ltd. As a result, Messrs. Raphael and Fridrich may be deemed to indirectly beneficially own the ordinary shares beneficially owned by Kanir, which constitute, together with their holdings as set forth in footnote (4), 28.7% and 25.5%, respectively, of our outstanding ordinary shares. Kanir Ltd. and Messrs. Raphael and Fridrich disclaim beneficial ownership of such ordinary shares except to the extent of their respective pecuniary interest therein, if any.
- (4) Mr. Raphael beneficially owns 454,524 ordinary shares, consisting of: (i) 314,514 ordinary shares held by a BVI private company wholly-owned by Mr. Raphael, which constitute approximately 2.9% of our outstanding shares and (ii) 140,010 ordinary shares held directly by Mr. Raphael, which constitute approximately 1.3% of our outstanding shares. Mr. Raphael, as the sole officer, director and shareholder of such private company, may be deemed to indirectly beneficially own any ordinary shares beneficially owned by such private company, which constitute (together with the shares held directly by him) approximately 4.3% of our outstanding ordinary shares. Mr. Fridrich directly owns 116,787 ordinary shares, which constitute approximately 1.1% of our outstanding shares.

- (5) By virtue of the 2008 Shareholders Agreement, Mr. Nehama, Nechama Investments, Kanir, Kanir Ltd., and Messrs. Raphael and Fridrich may be deemed to be members of a group that holds shared voting power with respect to 6,157,714 ordinary shares, which constitute approximately 57.7% of our outstanding ordinary shares, and holds shared dispositive power with respect to 5,280,958 ordinary shares, which constitute 49.5% of the outstanding ordinary shares. Accordingly, taking into account the shares directly held by Messrs. Nehama, Raphael (taking into account also shares held by the private company wholly-owned by him) and Fridrich, they may be deemed to beneficially own approximately 62%, 61.9% and 58.8%, respectively, of our outstanding ordinary shares. Each of Mr. Nehama and Nechama Investments disclaims beneficial ownership of the ordinary shares beneficially owned by Kanir. Each of Kanir, Kanir Ltd. and Messrs. Raphael and Fridrich disclaims beneficial ownership of the ordinary shares beneficially owned by Nechama Investments. A copy of the 2008 Shareholders Agreement was filed with the Securities and Exchange Commission, or the SEC, on March 31, 2008 as Exhibit 14 to an amendment to a Schedule 13D and is not incorporated by reference herein.
- (6) Bonstar Investments Ltd., or Bonstar, an Israeli company, holds 233,258 ordinary shares, which constitute approximately 2.2% of the outstanding ordinary shares. Bonstar is a limited partner of Kanir and assisted Kanir in the financing of the purchase of some of its ordinary shares. Accordingly, Bonstar may be deemed to be a member of a group with Kanir and its affiliates, although there are no agreements between Bonstar and either of such persons and entities with respect to the ordinary shares beneficially owned by each of them. Mr. Joseph Mor and Mr. Ishay Mor are the sole shareholders of Bonstar and Mr. Joseph Mor serves as the sole director of Bonstar. Messrs. Joseph Mor and Ishay Mor also hold, through a company jointly held by them, 175,000 ordinary shares, which constitute approximately 1.6% of the outstanding ordinary shares. By virtue of their control over Bonstar and the other company, Messrs. Joseph Mor and Ishay Mor may be deemed to indirectly beneficially own the 408,258 ordinary shares beneficially owned by Bonstar and by the other company, which constitute approximately 3.8% of the ordinary shares. Each of Bonstar and Messrs. Joseph Mor and Ishay Mor disclaims beneficial ownership of the ordinary shares beneficially owned by Kanir and Nechama Investments, except to the extent of their respective pecuniary interest therein, if any.
- (7) The information included in this table concerning the beneficial ownership of Nechama Investments, Kanir, Kanir Ltd., Bonstar and Messrs. Nehama, Raphael, Fridrich, Joseph Mor and Ishay Mor is based on a Schedule 13D/A filed on September 3, 2013 and on information provided by the shareholders.
- (8) Based on a Schedule 13G filed on February 19, 2019 by Mr. Itshak Sharon (Tshuva), Delek Group Ltd. and The Phoenix Holdings Ltd. According to the Schedule 13G: (i) the securities reported therein are beneficially owned by various direct or indirect, majority or wholly-owned subsidiaries of the Phoenix Holdings Ltd., or the Phoenix Subsidiaries, (ii) the Phoenix Subsidiaries manage their own funds and/or the funds of others, including for holders of exchange-traded notes or various insurance policies, members of pension or provident funds, unit holders of mutual funds, and portfolio management clients, (iii) each of the Phoenix Subsidiaries operates under independent management and makes its own independent voting and investment decisions, and (iv) the Phoenix Holdings Ltd. is a controlled subsidiary of Delek Group Ltd. and the majority of Delek Group Ltd.'s outstanding share capital and voting rights are owned, directly and indirectly, by Itshak Sharon (Tshuva) through private companies wholly-owned by him, and the remainder is held by the public.

Significant Changes in the Ownership of Major Shareholders

Other than the acquisition of our ordinary shares by The Phoenix Holdings Ltd., as reported in their Schedule 13G, there were no significant changes in the percentage ownership held by any major shareholders during the years ended December 31, 2016, 2017 and 2018.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 1, 2019, there were 36 record holders of ordinary shares, of which 11 represented United States* record holders holding approximately 36% of our outstanding ordinary shares (including approximately 35.5% of our outstanding ordinary shares held by the Depository Trust Company). This does not reflect persons or entities that hold ordinary shares in nominee or "street name" through various brokerage firms and does not reflect where the beneficial holders of our shares are located in part because the shares held by the Depository Trust Company include shares held for the Tel Aviv Stock Exchange Clearing House.

* Including the Depository Trust Company

2008 Shareholders Agreement

Pursuant to public filings made and information provided by Kanir and Nechama Investments and their affiliates, on March 24, 2008, Kanir and Nechama Investments entered into a shareholders agreement, or the 2008 Shareholders Agreement, with respect to their holdings of our ordinary shares. The following summary is based on public filings made by the parties to the 2008 Shareholders Agreement, which include a more detailed description of the 2008 Shareholders Agreement and a copy of such agreement and that are not incorporated by reference herein.

The parties to the 2008 Shareholders Agreement agreed to vote all our ordinary shares held by them as provided in the 2008 Shareholders Agreement. Where the 2008 Shareholders Agreement is silent as to a matter brought before our shareholders, the parties will agree in advance as to how they will vote. In the event that the parties do not reach an agreement regarding any such matter, they will vote all of their ordinary shares against such matter. In addition, the parties agreed to use their best efforts to amend our articles to require that, if so requested by at least two of our directors, certain matters, such as related party transactions and any material change in the scope of our business, will require the approval of a simple majority of the outstanding ordinary shares. At our annual shareholders meeting held on December 30, 2008, our shareholders approved the adoption of our Second Amended and Restated Articles, as requested by Kanir and Nechama Investments and that includes, among other things, the revisions contemplated in the 2008 Shareholders Agreement. For more information, see "Item 10.B: Memorandum of Association and Second Amended and Restated Articles."

The parties to the 2008 Shareholders Agreement further agreed to use their best efforts to ensure that the composition of our Board will be in accordance with the agreements set forth therein.

The 2008 Shareholders Agreement also contains certain agreements with respect to the ordinary shares held by each party that constitute, from time to time, 25.05% of the outstanding ordinary shares and, in the aggregate, 50.1% of the outstanding ordinary shares (these shares are defined in the 2008 Shareholders Agreement as the Restricted Shares), including a lock-up period, right of first refusal, tag along and a buy/sell notice mechanism.

The parties to the 2008 Shareholders Agreement agreed not to enter into any additional voting or similar agreements with any of our other shareholders during the term of the 2008 Shareholders Agreement, which will be in effect so long as (i) the parties hold more than 50% of our outstanding ordinary shares or (ii) each of the parties holds all of its Restricted Shares (unless the lending bank of the parties to the 2008 Shareholders Agreement forecloses on its pledge on the Restricted Shares of either party, causing the immediate termination of the 2008 Shareholders Agreement).

Registration Rights

We previously executed various registration rights agreements with certain entities and individuals, including former controlling shareholders, in connection with private placements of our securities. Registration rights with respect to a majority of the ordinary shares held by our current controlling shareholders were assigned from certain holders of such registration rights to our controlling shareholders, subject to the undertaking of the assignees to be bound by and subject to the terms and conditions of the registration rights agreement. During 2014 we received a demand for registration from several shareholders, including our controlling shareholders, and filed a registration statement on Form F-3 with covering the resale of 6,421,545, or 60.1% of our ordinary shares, which became effective on November 17, 2014. The registration of the shares included in this registration statement enable our controlling shareholders to sell a significant portion of our ordinary shares without restrictions, which could result in a change of control of Ellomay or in us ceasing to be a “controlled company” for purposes of the NYSE American LLC rules. For more information see “Item 16G: Corporate Governance.”

B. Related Party Transactions

On December 30, 2008, following the approval of our Audit Committee, Board of Directors and shareholders, we entered into the Management Services Agreement with Kanir and Meisaf, effective as of March 31, 2008, the date of appointment of Messrs. Fridrich and Nehama as members of our Board.

The Management Services Agreement provides, among other things, that Meisaf and Kanir, through their employees, officers and directors, will assist us in connection with the process of identifying and evaluating opportunities to acquire operations, otherwise provide us with management services and advise and provide assistance to our management concerning our affairs and business. It is further agreed that the management services will be provided primarily by Messrs. Nehama, Fridrich and Raphael.

In addition, the Management Services Agreement notes that Kanir’s and Meisaf’s representatives on our Board of Directors, Messrs. Nehama, Fridrich and Raphael, or other affiliates of such entities, serve and will continue to serve on our Board of Directors. In providing the Board services, the directors and the Chairman of the Board will be subject to any and all fiduciary and other duties applicable to them under law and under our Articles and they are required to dedicate as much time as reasonably necessary for the proper performance of such services.

In consideration for the performance of the management services and the Board services, we currently pay to Meisaf and Kanir, in equal parts, an aggregate annual fee in the amount of \$400,000 (approximately €349,345), on a quarterly basis. Meisaf and Kanir are also entitled to receive reimbursement for reasonable out-of-pocket business expenses borne by them in connection with the provision of the services, as customary in the Company. In connection with the Management Services Agreement, the Board representatives of Kanir and Mr. Nehama waived any director fees and options to purchase our ordinary shares they may be entitled to as a result of their service on our Board. In addition, Mr. Fridrich, who first served as our Interim Chief Executive Officer and is now our Chief Executive Officer, serves as our Chief Executive Officer since January 2009 as part of the management services provided pursuant to the Management Services Agreement, and agreed not to receive any additional compensation or other benefits beyond the fees paid in connection with the Management Services Agreement.

At our 2016 Shareholders Meeting, following the approval of our Audit Committee, Compensation Committee and Board, our shareholders approved a further extension of the term of the Management Services Agreement, so that it shall remain in effect until the earlier of: (i) June 17, 2019, (ii) the termination of service of either of the Kanir and Nechama Investments affiliates on our Board of Directors, or (iii) a date that is six (6) months following the delivery of a written termination notice by Meisaf and Kanir to us or by us to Meisaf and Kanir.

For a further discussion of transactions and balances with related parties see “Item 4.D: Property, Plants and Equipment,” “Item 6.B: Compensation,” “Item 6.C: Board Practices” under “Indemnification, Exemption and Insurance of Executive Officers and Directors,” “Registration Rights” above and Note 15 to our consolidated financial statements, which are included elsewhere in this report and the disclosure concerning the registration of shares held by our controlling shareholders set forth above.

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8: Financial Information

A. Consolidated Statements and Other Financial Information.

Consolidated Statements

Our consolidated financial statements are set forth in Item 18.

Legal Proceedings

We may from time to time become a party to various legal proceedings in the ordinary course of our business. While the outcome of these matters cannot be predicted with certainty, we do not believe they will have a material effect on our consolidated financial position, results of operations, or cash flows. In addition, we are involved in various legal proceedings in connection with our holdings in Dori Energy and indirect holdings in Dorad and with the Manara PSP. For more information see “Item 4.B: Business Overview” under “The Dorad Power Plant” and under “Pumped Storage project in the Manara Cliff in Israel.”

Dividends

On March 18, 2015, our Board of Directors adopted a dividend distribution policy, or the Policy, pursuant to which we intend to distribute a dividend of up to 33% of our annual distributable profits each year, either by way of a cash dividend, a share buyback program or a combination of both. Distributions or the amount or method of the distribution pursuant to the Policy are not guaranteed and are subject to the specific approval of our Board of Directors, based on various factors they deem appropriate including, among others, our financial position, our outstanding liabilities and contractual obligations, prospective acquisitions, our business plan and the market conditions. In addition, as described herein, distributions are subject to the restrictions in the Series A Deed of Trust and Series B Deed of Trust. Our Board of Directors may, subject to the circumstances and conditions stated above, declare additional dividend distributions, change the rate of a specific distribution or cancel a distribution (either as a revision to the Policy or on a more temporary basis). In addition, our Board of Directors may, in its absolute discretion and at any time, revise, update or terminate the Policy. Prior to the adoption of the Policy, we did not have a dividend distribution policy or distribute cash dividends in the past.

In May 2015, our Board of Directors approved the repurchase of up to \$3 million of our ordinary shares. The authorized repurchases will be made from time to time in the open market on the NYSE American LLC and Tel Aviv Stock Exchange or in privately negotiated transactions. The timing, volume and nature of share repurchases will be at the sole discretion of management and will be dependent on regulatory restrictions, market conditions, the price and availability of our ordinary shares, applicable securities laws and other factors, including compliance with the terms of our Debentures. No assurance can be given that any particular amount of ordinary shares will be repurchased. The buyback program does not obligate us to acquire a specific number of shares in any period, and it may be modified, suspended, extended or discontinued at any time, without prior notice. We repurchased 172,391 ordinary shares in the NYSE American LLC under this buyback program. On March 23, 2016, we announced the decision to distribute a cash dividend in the amount of \$0.225 per share (an aggregate distribution of approximately \$2.4 million). We distributed this dividend in April 2016. We did not declare or pay a cash dividend during 2017 and we did not repurchase any of our ordinary shares or declare or pay a cash dividend during 2018.

The terms of the deed of trust governing our Debentures restrict our ability to distribute dividends (for more information see “Item 5.B: Liquidity and Capital Resources”). In addition, under Israeli law, the payment of dividends is generally made from accumulated retained earnings or retained earnings accrued over a period of the last two years (after deducting prior dividends to the extent not already deducted from retained earnings), and in either case, provided there is no reasonable concern that the dividend will prevent the company from satisfying current or foreseeable obligations as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

B. Significant Changes

Except as otherwise disclosed in this report, no significant changes have occurred since December 31, 2018.

ITEM 9: The Offer and Listing

A. Offer and Listing Details

Our ordinary shares are listed on the NYSE American LLC and the TASE under the symbol “ELLO.”

B. Plan of Distribution

Not Applicable.

C. Markets

Our ordinary shares have been listed on the NYSE American LLC since August 22, 2011. Our trading symbol is “ELLO.” On October 27, 2013, our ordinary shares were listed for trading on the Tel Aviv Stock Exchange under the symbol “ELLO.”

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

ITEM 10: Additional Information

A. Share Capital

Not Applicable.

B. Memorandum of Association and Second Amended and Restated Articles

Memorandum of Association and Second Amended and Restated Articles

Set forth below is a brief description of certain provisions contained in the Memorandum of Association, the Second Amended and Restated Articles, adopted by our shareholders at our general meeting held on December 30, 2008, as amended, as well as certain statutory provisions of Israeli law. The Memorandum of Association and the Articles are incorporated by reference herein. The description of certain provisions does not purport to be a complete summary of these provisions and is qualified in its entirety by reference to such exhibits and to Israeli law.

Authorized Share Capital

Our authorized share capital is one hundred seventy million (170,000,000) New Israeli Shekels, divided into seventeen million (17,000,000) ordinary shares, NIS 10.00 par value per share.

Due to the fact that we were incorporated prior to 1999, the year the Companies Law was enacted, a special majority of 75% of the shares voting on the matter is generally required in order to amend our Memorandum, however, pursuant to our Memorandum, changes to our capital structure, such as an increase in our authorized capital, only require the vote of a majority of the shares voting on the matter.

Purpose and Objective

We are a public company registered under the Companies Law as Ellomay Capital Ltd., registration number 52-003986-8. Pursuant to Article 3.1 of our Articles, our objective is to undertake any lawful activity, including any objective set forth in our Memorandum of Association. Pursuant to Article 3.2 of our Articles, our purpose is to operate in accordance with commercial considerations with the intentions of generating profits. In addition, we may contribute reasonable amounts for any suitable purpose even if such contributions do not fall within our business considerations. The Board may determine the amounts of the contributions, the purpose for which the contribution is to be made, and the recipients of any such contribution.

Board of Directors

Under the Companies Law, our Board is authorized to determine our strategy and supervise the performance of the duties and actions of our chief executive officer. Our Board may not delegate to a committee of the Board or the chief executive officer the right to decide on certain of the authorities vested in it, including determination of our strategy, distributions, certain issuances of securities and approval of financial reports. The powers conferred upon the Board are vested in the Board as a collective body and not in each one or more of the directors individually. Unless otherwise set forth in a resolution of the shareholders, our Articles provide that our Board shall consist of not less than four (4) nor more than eight (8) directors (including any external directors whose appointment is mandated under the Companies Law).

Pursuant to the Companies Law, publicly traded companies must appoint at least two external directors to serve on their board of directors and audit committee. For further information concerning external directors see "Item 6.C: Board Practices."

The Companies Law codifies the fiduciary duties that an office holder has to a company. An office holder's fiduciary duties consist of a duty of loyalty and a duty of care. For more information concerning these duties, the approval process of certain transactions and other board practices see "Item 6.C: Board Practices."

Our directors cannot vote approve compensation to themselves or any members of their body without the approval of our compensation committee and our shareholders. For more details concerning the approval process of Terms of Service and Employment of office holders see "Item 6.C: Board Practices" under "Compensation Committee." Borrowing powers exercisable by the directors are not specifically outlined in our Articles.

No person shall be disqualified to serve as a director by reason of his not holding our shares in. Additionally, our Articles do not provide for an age in which directors are required to retire.

Rights of Shareholders

No preemptive rights are granted to holders of our ordinary shares under the Articles or the Companies Law. Each ordinary share is entitled to one vote on all matters to be voted on by shareholders, including the election of directors.

The directors, other than external directors who are elected for three-year terms, are elected annually at a general meeting of shareholders and remain in office until the next annual meeting at which time they retire, unless their office is previously vacated as provided in the Articles. A retiring director may be reelected. If no directors are elected at the annual meeting, all of the retiring directors remain in office pending their replacement at a general meeting. Holders of the ordinary shares do not have cumulative voting rights in the election of directors. Consequently, the holders of ordinary shares in the aggregate conferring more than 50% of the voting power, represented in person or by proxy, will have the power to elect all the directors. On March 24, 2008, in connection with the purchase of a controlling interest of our ordinary shares, Nechama Investments and Kanir entered into the 2008 Shareholders Agreement. Under the 2008 Shareholders Agreement, both parties agreed to vote all of our shares held by them as provided in the agreement and, where the agreement is silent, as the parties shall agree prior to any meeting of our shareholders. In addition, the 2008 Shareholders Agreement provides that in the event the parties do not reach an agreement regarding certain resolution proposed to our shareholders meeting, the parties shall vote all of their shares against such proposed resolution. For further information with respect to the 2008 Shareholders Agreement, see "Item 7.A: Major Shareholders" under the caption "2008 Shareholders Agreement."

Following the adoption of the Articles at our general meeting of shareholders held on December 30, 2008, Article 25.5 provides that for so long as the 2008 Shareholders Agreement is in effect, at the written request of any two directors with respect to any proposed action or transaction (including certain related party transactions, any amendments to our Memorandum of Association or Articles, any merger or consolidation of the Company, any material change in the scope of our business, the voluntary liquidation or dissolution of the Company, approval of annual budget or business plan and material deviations therefrom and any change in signatory rights on behalf of the Company), such action or transaction shall require the approval of our general meeting by a resolution supported by members present, in person or by proxy, vested with at least 50.1% of our outstanding shares, or by such higher approval threshold as may be required by Israeli law.

Chairman of the Board

Our Articles provide that our Chairman of the Board shall have no casting vote, unless (i) the Chairman of the Board is then Mr. Shlomo Nehama and (ii) Nechama Investments, together with any Affiliates (as defined in our Articles) thereof, then holds at least 25.05% of our outstanding shares. Our Articles further provide that, notwithstanding the foregoing, in case Mr. Shlomo Nehama elects to exercise his casting vote in respect of a specific resolution brought before our Board, or the Triggering Resolution, then (a) prior to such exercise, Nechama Investments shall be required to trigger the "Buy Me Buy You" mechanism set forth in the 2008 Shareholders Agreement as an Offering Party (as defined in the 2008 Shareholders Agreement), whereby the Triggering Resolution will be pending until the consummation of the sale of the Restricted Shares (as defined in the 2008 Shareholders Agreement) of one party to the 2008 Shareholders Agreement to the other party of the 2008 Shareholders Agreement in accordance with such "Buy Me Buy You" mechanism; and (b) in the event that three (3) of the members of our Board so require, the Triggering Resolution shall be conditioned upon the approval of our General Meeting pursuant to Article 25.1 of the Articles (requiring a special majority of 50.1% of our outstanding shares). Upon a transfer of the Restricted Shares by Kanir to third party in accordance with the terms of the 2008 Shareholders Agreement, the casting vote of the Chairman of the Board shall expire.

Dividends and Liquidation Rights

Our Board of Directors is authorized to declare dividends, subject to applicable law. Dividends may be paid only out of profits and other surplus, as defined in the Companies Law, as of the end of the most recent financial statements or as accrued over a period of two years, whichever is higher. Alternatively, if we do not have sufficient profits or other surplus, then permission to effect a distribution can be granted by order of an Israeli court. In any event, a distribution is permitted only if there is no reasonable concern that the distribution will prevent us from satisfying our existing and foreseeable obligations as they become due.

Upon recommendation by the Board, dividends may be paid, in whole or in part, by the distribution of certain of our specific assets, of our shares or debentures, or shares or debentures of any other company, or in any combination of such manners. Subject to special or restricted rights conferred upon the holders of shares as to dividends, if any, the dividends shall be distributed in accordance with our paid-up capital attributable to the shares for which the dividend has been declared. Our obligation to pay dividends or any other amount in respect of shares may be set-off against any indebtedness, however arising, liquidated or non-liquidated, of the person entitled to receive the dividend. Any dividend unclaimed within the period of seven years from the date stipulated for its payment shall be forfeited and returned to us, unless otherwise directed by our Board. In the event of the winding up of Ellomay, then, after satisfaction of liabilities to creditors and subject to provisions of any applicable law and to any special or restricted rights attached to a share, our assets in excess of our liabilities will be distributed among the shareholders in proportion to the paid-up capital attributable to the shares in respect of which the distribution is being made. Dividend and liquidation right may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

For more information concerning our dividend distribution policy see Item 8.A: Financial Information – Consolidated Statements and Other Financial information,” under the heading “Dividends.”

Redemption Provisions

We may, subject to any applicable law, issue redeemable securities and then redeem them.

Liability to Capital Calls

The liability of our shareholders for the indebtedness of the Company is limited to payment of the nominal value of the shares held by them.

Certain Transactions with Controlling Persons

No provision in the Articles discriminates against an existing or prospective holder of securities, as a result of such shareholder owning a substantial amount of shares. However, the Companies Law extends the disclosure requirements applicable to office holders as described in “Board Practices” under “Management” above, to a controlling shareholder in a public company. For purposes of the issues described in these paragraphs, the Companies Law defines a controlling shareholder a shareholder who can direct the activities of the company, including a presumption that a person who holds 25% or more of the voting rights at the company’s general meeting, provided there is no other person that holds more than 50% of the voting rights in such company, is a controlling shareholder. If two or more shareholders are interested parties in the same transaction, their shareholdings are combined for the purposes of calculating the percentages held by them. If two or more shareholders are parties to a voting agreement, their interests are also generally combined for the purposes of calculating percentages.

“Extraordinary Transactions” (as such term is defined by the Companies Law and as set forth in “Board Practices” under “Management” above) of a public company with its controlling shareholder or with another person if the controlling shareholder has a personal interest in such transaction, including certain private offering of securities in which the controlling shareholder has a personal interest, a transaction between a company and a controlling shareholder or her or his relative, directly or indirectly, including through a company controlled by her or him, relating to the receipt by the company of services from her or him, and, if such controlling shareholder or her or his relative are office holders, a transaction in connection with their Terms of Service and Employment or, if he or she is an employee of the company and not an office holder, a transaction of the company with such person in connection with his or her employment by the company, all are required to be for the benefit of the company and require the approval of the audit committee, the board of directors and the shareholders. The shareholders’ approval of such a transaction requires a simple majority approval and the fulfillment of one of the following conditions: (i) at least a majority of the votes cast by shareholders who have no personal interest in the transaction and who vote on the matter are voted in favor of the transaction, or (ii) the votes cast by shareholders who have no personal interest in the transaction voted against the transaction do not represent more than two percent of the voting rights in the company. In addition, any such transaction with a term that exceeds three years requires approval as described above every three years, unless (with respect only to extraordinary transactions and not to other transactions that require the special approval process) the audit committee approves that a longer term is reasonable under the circumstances. For more information concerning the roles of the audit committee in connection with related party transactions, including a recent amendment to the Companies Law, see “Item 6.C: Board Practices.” For more information concerning the approval process and requirements in connection with the Terms of Service and Employment of controlling shareholders and their relatives see “Item 6.B: Compensation.”

Pursuant to the Relief Regulations, certain extraordinary transactions between a company and its controlling shareholder(s), certain undertakings of a company to its directors in connection with their terms of service and certain transactions between a company and its controlling shareholder(s) or their relatives in their capacity as office holders or employees of the company may be approved, if the conditions set forth in such regulations are met, without the requirement to obtain shareholder approval. The Relief Regulations require that the company’s audit committee and board of directors determine that the conditions set forth in the Relief Regulations are met. One of the alternative conditions for approving an extraordinary transaction with a controlling shareholder is that such transaction only benefits the company. Another available condition is that the transaction is in the ordinary course of business, on market terms, and does not harm the company.

Changing Rights Attached to Shares

According to our Articles, in order to change the rights attached to any class of shares, unless otherwise provided by the terms of the class, such change must be adopted by a general meeting of the shareholders and by a separate general meeting of the holders of the affected class by the majority that is generally required for the amendment of the Articles or, if higher, the Memorandum. The provisions of the Articles relating to General Meetings of our shareholders shall apply, mutatis mutandis, to any separate General Meeting of the holders of the shares of a specific class; provided, however, that the requisite quorum at any such separate General Meeting shall be one or more members present in person or by proxy and holding not less than thirty three and one third percent (33 1/3%) of the issued shares of such class.

Pursuant to the Companies Law, the quorum requirement for General Meetings and for separate General Meetings for holders of a specific class may be satisfied with the presence of at least two members present in person or by proxy and holding not less than 25% of the outstanding shares, or the shares of such class, as the case may be.

Annual and Extraordinary Meetings of our Shareholders

Pursuant to the Companies Law, an annual meeting of shareholders must be held once in every calendar year at such time (within a period of not more than fifteen months after the preceding annual meeting) and at such place as may be determined by the board of directors. The board of directors may, at any time, convene extraordinary general meetings of shareholders, and shall be obligated to do so upon receipt of a requisition in writing from any of the following: (i) two directors or one quarter of the directors holding office; (ii) one or more shareholders holding at least 5% of the issued capital and at least 1% of the voting rights in the Company; or (iii) one or more shareholders holding at least 5% of the voting rights in the Company. A requisition must detail the objects for which the meeting must be convened and shall be signed by the persons requisitioning it and sent to the Company's registered office. When the board of directors is required to convene a special meeting, it shall do so within 21 days of the requisition being submitted. In the event the board of directors does not convene the extraordinary meeting despite the receipt of a valid requisition, the persons requisitioning the meeting may convene the meeting themselves, provided that such meeting shall not be held more than three months following the delivery of the requisition and will be convened, to the extent possible, in the same manner as general meetings are convened by the board of directors.

Prior to any general meeting a written notice thereof shall be made public as required by Israeli law. The Articles provide that we shall not be required to deliver notice to each shareholder, except as may be specifically required by Israeli law. The Articles further provide that a notice by us of a general meeting that is published in one international wire service shall be deemed to have been duly given on the date of such publication.

Two or more members present in person or by proxy and holding shares conferring in the aggregate more than 25% of the total voting power attached to our shares shall constitute a quorum at general meetings. If a meeting is adjourned due to the lack of a quorum, any two shareholders, present in person or by proxy at the subsequent adjourned meeting, will constitute a quorum. Unless provided otherwise by the terms of issue of the shares, no member shall be entitled to be present or vote at a general meeting (or to be counted as part of the quorum) unless all amounts due as of the date designated for same general meeting with respect to his shares were paid. A resolution shall be deemed adopted if the requisite quorum is present and the resolution is supported by members present, in person or by proxy, vested with more than fifty percent (50%) of the total voting power attached to the shares whose holders were present, in person or by proxy, at such meeting and voted thereon, or such other percentage required by law or set forth in the Articles from time to time.

Our Memorandum of Association and Articles and the laws of the State of Israel do not restrict in any way the ownership or voting of ordinary shares by non-residents, except that shares held by citizens of countries which are in a state of war with Israel will not confer any rights to their holders unless the Ministry of Finance consents otherwise.

Anti-takeover Provisions; Mergers and Acquisitions under Israeli Law

The Companies Law permits merger transactions with the approval of each party's board of directors and generally requires shareholder approval as well. A merger with a wholly owned subsidiary does not require approval of the target company's shareholders. A merger does not require approval of the surviving company's shareholders if: (i) the merger does not require the adoption of amendments to the surviving company's memorandum of association or articles and (ii) the surviving company does not issue more than 20% of its voting power in connection with the merger and as a result of the issuance no shareholder would become a controlling shareholder (for this purpose any securities convertible into shares of the surviving company that such person holds or that are issued to him in the course of the merger are deemed to have been converted or exercised). Shareholder approval of the surviving company would nevertheless be required if the other party to the merger, or a person holding more than 25% of the outstanding voting shares or means of appointing the board of directors of the other party to the merger, holds any shares of the surviving company. In accordance with the Companies Law, our Articles provide that a merger may be approved at a shareholders meeting by a majority of the voting power represented at the meeting, in person or by proxy, and voting on that resolution. The Companies Law provides that in determining whether the required majority has approved the merger, shares held by the other party to the merger, any person holding at least 25% of the outstanding voting shares or means of appointing the board of directors of the other party to the merger, or the relatives or companies controlled by these persons, are excluded from the vote. As described above, our Articles currently provide, under certain circumstances, including a merger of the Company, that two directors may require that, in addition to the majority prescribed by the Companies Law, a merger be approved by a resolution supported by shareholders present, in person or by proxy, vested with at least 50.1% of our outstanding shares. For additional voting requirements that may apply to us pursuant to Article 25.5 of our Articles in connection with a proposed merger see "Rights of Shareholders" above.

Under the Companies Law, a merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that a merger proposal was filed with the Israeli Registrar of Companies and 30 days have passed from the shareholder approval of the merger in each merging company.

The Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold 25% or more of the voting rights in the company. This rule does not apply if there is already another holder of 25% or more of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold greater than 45% of the voting rights in the company, unless there is another shareholder holding more than 45% of the voting rights in the company. These requirements do not apply if, in general, the acquisition: (1) was made in a private placement that received shareholder approval as a private placement and was meant to grant the purchaser 25% or more of the voting rights of a company in which no other shareholder holds 25% or more of the voting rights, or to grant the purchaser more than 45% of the voting rights of a company in which no other shareholder holds more than 45% of the voting rights, (2) was from a holder of 25% or more of the voting rights in the company which resulted in the acquiror holding 25% or of the voting rights in the company, or (3) was from a shareholder holding more than 45% of the voting rights in the company which resulted in the acquiror becoming a holder of more than 45% voting rights in the company.

If, as a result of an acquisition of shares, the acquiror will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares, or a full tender offer. A full tender offer is accepted if either: (i) holders of less than 5% of the outstanding shares do not accept the tender offer and more than half of the offerees who do not have a personal interest in accepting the tender offer accepted it, or (ii) holders of less than 2% of the outstanding shares do not accept the tender offer. If the full tender offer is not accepted, then the acquiror may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

The Companies Law provides for appraisal rights in the event a full tender offer is accepted if the shareholder files a request with the court within six months following the consummation of a full tender offer. The acquiror may provide in the tender offer documents that any shareholder that accepted the offer and tendered his shares will not be entitled to appraisal rights.

Duties of Shareholders and of Controlling Shareholders

Under the Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his or her power in the company including, among other things, when voting in a general meeting of shareholders or in a class meeting on the following matters:

- any amendment to the articles;
- an increase in the company's authorized share capital;
- a merger; or
- approval of related party transactions that require shareholder approval.

A shareholder also has a general duty to refrain from depriving any other shareholders of their rights as shareholders.

In addition, a duty to act with fairness towards the company is imposed on: (i) anyone who controls a company, i.e. a person that has the ability to direct the activity of a company, excluding an ability deriving merely from holding an officer or director or another office in the company (a person shall be presumed to control a corporation if he or she holds half or more of certain means of control, i.e. rights to vote at a general meeting and the right to appoint directors or general manager), (ii) any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and (iii) any shareholder who has the power to appoint or prevent the appointment of an office holder in the company. The Companies Law does not describe the substance of this duty of fairness.

C. Material Contracts

Management Services Agreement with Kanir and Meisaf

For details concerning the Management Agreement, see “Item 7.B: Related Party Transactions.”

The description of the Management Agreement is only a summary and does not purport to be complete and is qualified by reference to the full text of the Management Agreement filed by us as Exhibit 4.6 and the amendment to the Management Agreement filed by us as Exhibit 4.16 under Item 19.

Agreements in connection with the Investment in Dori Energy

Summaries of the material agreements executed in connection with our investment in Dori Energy are included as Exhibits 4.11 and 4.12 under Item 19.”

Series A Deed of Trust

For a description of our debt agreements, including the Series A Deed of Trust governing our Series A Debentures, see “Item 5.B: Operating and Financial Review and Prospects – Liquidity and Capital Resources.”

The descriptions of the Series A Deed of Trust is only a summary and does not purport to be complete and is qualified by reference to the convenience translation of the Series A Deed of Trust filed by us as Exhibit 4.19 under Item 19.

Series B Deed of Trust

For a description of our debt agreements, including the Series B Deed of Trust governing our Series B Debentures, see “Item 5.B: Operating and Financial Review and Prospects – Liquidity and Capital Resources.”

The descriptions of the Series B Deed of Trust is only a summary and does not purport to be complete and is qualified by reference to the convenience translation of the Series B Deed of Trust filed by us as Exhibit 4.24 under Item 19.

D. Exchange Controls

Dividends, if any, paid by us to the holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency. If these amounts are paid in Israeli currency, they may be converted into U.S. dollars at the rate of exchange prevailing at the time of conversion. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The State of Israel does not restrict in any way the ownership or voting of ordinary shares of Israeli entities by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel. In addition, there are currently no limitations on our ability to import and export capital.

E. Taxation

Israeli Taxation

The following is a summary of the material Israeli tax consequences and Israeli foreign exchange regulations as they relate to our shareholders and us. To the extent that the discussion is based on new tax or other legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax or other authorities in question. **The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.**

General Corporate Tax Structure

Israeli companies are generally subject to company tax on their taxable income. The Israeli corporate tax rate was 25% in 2013. The corporate tax rate increased to 26.5% in 2014 and 2015 and was reduced to 25% as of January 1, 2016. The Israeli Parliament on December 22, 2016, approved the Israeli Budgetary Law for 2017 and 2018, or the Budget Law. The Budget Law reduces the regular corporate tax rate from 25% to 24% in 2017 and to 23% in 2018.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain, which is equivalent to the increase of the relevant asset's purchase price, which is attributable to the increase in the Israeli consumer price index between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Taxation of Israeli Residents

The tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 30%. Additionally, if such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale (i.e., such shareholder holds directly or indirectly, including jointly with others, at least 10% of any means of control in the company) the tax rate will be 30%. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of shares.

Taxation of Non-Israeli Residents

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock market outside of Israel, provided such shareholders did not acquire their shares prior to the issuer's initial public offering and that the gains did not derive from a permanent establishment of such shareholders in Israel and that such shareholders are not subject to the Inflationary Adjustments Law. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) holding ordinary shares as a capital asset is also exempt from Israeli capital gains tax under the U.S.-Israel Tax Treaty unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale or (ii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel. If the above conditions are not met, the U.S. resident would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, the gain would be treated as foreign source income for United States foreign tax credit purposes and such U.S. resident would be permitted to claim a credit for such taxes against the United States income tax imposed on such sale, exchange or disposition, subject to the limitations under the United States federal income tax laws applicable to foreign tax credits.

Taxation on Dividends paid to a Shareholder

Taxation of Israeli Residents

Individuals who are Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, unless the recipient is a "significant" shareholder (as defined above) at any time during the 12-month period preceding the distribution, in which case the applicable tax rate is 30%. The company distributing the dividend is required to withhold tax at the rate of 25% (a different rate may apply to dividends paid on shares deriving from the exercise of stock options or other equity-based awards granted as compensation to employees or office holders of the company) or 30%, as applicable. Companies which are Israeli residents are generally exempt from income tax on the receipt of dividends from another Israeli company, unless the source of such dividends is located outside of Israel, in which case tax will generally apply at a rate of 25%.

Taxation of Non-Israeli Residents

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our shares at the rate of 25% or 30%, if such person (including a non-Israeli corporation) is a substantial shareholder at the time of recipient of the dividend or on any date in the 12 months preceding such date, which tax will be withheld at the source, unless a different rate is provided in a tax treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) is 25%. A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

Taxation of Holders of our Debentures

Capital Gains Tax

Taxation of Israeli Residents

A capital gain for an individual derived from the sale of a debenture that is not linked to an index, such as our Debentures, will be taxable at a rate not to exceed 15% in case of a “non-significant” individual debenture holder, or 20% in the case of a “significant” individual debenture holder. Tax payers claiming a deduction of real interest expenses and linkage differences on debentures such as the Debentures will be taxed at a rate of 30% on their real capital gains. Dealers in securities in Israel are taxed at regular tax rates applicable to business income. Companies resident in Israel are taxed at rates applicable to capital gains.

Taxation of Non-Israeli Residents

Gains on the sale of securities traded on the TASE, such as our Debentures, held by non-Israeli resident investors for tax purposes will generally be exempt from Israeli capital gains tax, subject to the provisions of the Israeli tax legislation. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident: (i) has a controlling interest of 25% or more in such non-Israeli corporation; or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Income Tax on Interest Income

Taxation of Israeli Residents

Israeli resident individuals are exempt from tax on the linkage differences derived from the debenture principal, under certain conditions. An individual is taxable at a rate of 15% on interest or discount fees originating from debentures which are not linked to the index, whether in whole or in part, such as our Debentures. Pursuant to Section 125C(b) of the Israeli Income Tax Ordinance, the tax rate on interest income or discount fees originating from fully index-linked debentures, including debentures linked to a foreign currency, is 25% in case of a “non-significant” debenture holder. Pursuant to Section 125C(d) of the Israeli Income Tax Ordinance, these tax rates will not apply if any of the following conditions are met: (1) the interest represents income from a “business” or is recorded in the individual’s books of account or is required to be so recorded; (2) the individual has claimed deduction of linkage differences and interest expenses on the debentures; (3) the individual is a “significant” individual debenture holder; or (4) the individual is employed by a corporation that paid the interest, is a supplier of goods or services to the corporation or has other special relations with the corporation, unless the tax assessing officer is satisfied that the interest rate has been established in good faith and regardless of the existence of any such relations between the individual and the corporation. In these cases, the individual will be taxed at the marginal tax rate. The paying company will deduct tax at a rate of 15% on interest in respect of unlinked debentures, such as our Debentures, and at a rate of 25% in the case of linked debentures. The maximum tax rate pursuant to Section 121 of the Israeli Income Tax Ordinance will apply in the case of an individual who is a “significant” individual debenture holder, an individual employed by the interest-paying corporation or a supplier of goods or services to the corporation. The tax rate applicable to interest income (including linkage differences) or discount fees of an Israeli resident corporation is the corporate tax rate. The paying company will deduct tax at the corporate tax rate.

Interest, discount fees or linkage differences paid to a foreign resident on debentures listed on the TASE and issued by an Israeli resident corporation, such as our Debentures, are typically exempt from Israeli tax, provided that the income is not produced by the foreign resident's permanent establishment in Israel. The tax exemption will not apply in the following circumstances: (1) the foreign resident is a "significant" shareholder or debenture holder of the issuing company; (2) the foreign resident is a relative, as defined in the Ordinance, of the issuing company; (3) the foreign resident is an employee, a supplier of goods or services or has special relations with respect to the issuing company (unless it is demonstrated that the interest rate or discount fees have been determined in good faith and regardless of the existence of any special relations); or (4) the foreign resident company is held by Israeli residents. If the tax exemption does not apply as above, the tax rate applicable to interest income received by foreign residents (individuals and corporations) originating from securities will be established in accordance with the provisions of the Ordinance, or in accordance with the provisions of the relevant treaty for the avoidance of double taxation signed between the State of Israel and the foreign resident's country of residence. In such case, the paying company will withhold tax according to the rates prescribed in the Ordinance as above, and this rate may be reduced subject to the relevant treaty for the avoidance of double taxation. As indicated above, our Debentures are not registered under the Securities Act and may not be offered or sold in the United States or to U.S. Persons (as defined in Regulation "S" under the Securities Act) without registration under the Securities Act or an exception from the registration requirements of the Securities Act.

U.S. Tax Considerations Regarding Ordinary Shares

The following is a general summary of the material United States federal income tax consequences relating to the acquisition, ownership and disposition of our ordinary shares by an investor that holds those ordinary shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This summary is based on the tax laws of the United States, and existing final, temporary and proposed Treasury Regulations, administrative pronouncements and judicial decisions, as in effect on the date hereof, all of which are subject to prospective and retroactive changes, and to differing interpretations. This summary does not purport to address all federal income tax consequences that may be relevant to particular investors, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks and financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, investors liable for alternative minimum tax, investors that own or are treated as owning 10% or more of our ordinary shares, investors that hold ordinary shares as part of a straddle, hedge, conversion transaction or other integrated transaction, U.S. expatriates and investors whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary does not address any aspect of United States federal gift or estate tax or state, local or foreign tax laws.

ACCORDINGLY, PERSONS CONSIDERING THE PURCHASE OF ORDINARY SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF UNITED STATES FEDERAL TAX LAWS, AS WELL AS THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION, TO THEIR PARTICULAR SITUATIONS.

For purposes of this discussion, a “U.S. Holder” is any beneficial owner of our ordinary shares that, for U.S. federal income tax purposes, is:

- (1) an individual citizen or resident of the United States,
- (2) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States or any political subdivision thereof,
- (3) an estate the income of which is subject to U.S. federal income tax without regard to its source, or
- (4) a trust, if such trust was in existence on August 20, 1996 and has validly elected to be treated as a U.S. person for U.S. federal income tax purposes, or if (a) a court within the U.S. can exercise primary supervision over its administration and (b) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. tax purposes) is a beneficial owner of our ordinary shares, the U.S. tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A holder of our ordinary shares that is a partnership and partners in such partnership should consult their individual tax advisors about the U.S. federal income tax consequences of holding and disposing of our ordinary shares.

A “Non-U.S. Holder” is any beneficial owner of our ordinary shares that is not a U.S. Holder and is not a partnership (or its partners).

Taxation of U.S. Holders

Distributions on Ordinary Shares. Subject to the discussion in “Passive Foreign Investment Companies” below, distributions made by us with respect to ordinary shares generally will constitute dividends for federal income tax purposes and will be taxable to a U.S. Holder as a dividend to the extent of our undistributed current or accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions in excess of our current and accumulated earnings and profits will be treated first as a nontaxable return of capital reducing the U.S. Holder’s tax basis in the ordinary shares, thus increasing the amount of any gain (or reducing the amount of any loss) which might be realized by such U.S. Holder upon the sale or exchange of such ordinary shares. Any such distributions in excess of the U.S. Holder’s tax basis in the ordinary shares will be treated as gain from the sale or exchange of our ordinary shares. Dividends paid by us generally will not be eligible for the dividends received deduction available to certain United States corporate shareholders under Code Sections 243 and 245. Subject to the discussion in “Medicare Tax” below (and assuming that we are not a “Passive Foreign Investment Company”), if you are a noncorporate U.S. Holder, dividends paid to you will be treated as “qualified dividend income” and taxable to you at a maximum rate of 20% provided that you held the ordinary shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. A corporate U.S. Holder (and a noncorporate U.S. Holder that fails to satisfy the applicable holding period requirements) is taxable at ordinary rates on dividends received.

A dividend paid in New Israeli Shekel will be included in gross income in a U.S. dollar amount based on the Israeli NIS/U.S. dollar exchange rate in effect on the date the dividend is included in the income of the U.S. Holder, regardless of whether the payment, in fact, is converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or otherwise disposed of) will be treated as U.S. source ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income.

Subject to certain conditions and limitations, any Israeli withholding tax imposed upon distributions which constitute dividends under United States federal income tax law will be eligible for credit against a U.S. Holder's federal income tax liability. Alternatively, a U.S. Holder may claim a deduction for such amount, but only for a year in which a U.S. Holder elects to do so with respect to all foreign income taxes. The overall limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed with respect to our ordinary shares will generally constitute "passive income."

Sale or Exchange of Ordinary Shares. Subject to the discussion in "Passive Foreign Investment Company" below, a U.S. Holder of ordinary shares generally will recognize capital gain or loss upon the sale or exchange of the ordinary shares measured by the difference between the amount realized and the U.S. Holder's tax basis in the ordinary shares. Any such capital gain will be long-term capital gain or loss if the U.S. Holder's holding period in our ordinary shares is more than one year. Subject to the discussion in "Medicare Tax" below, tax rates for the long-term capital gain to an individual U.S. Holder will be taxable to you at a maximum rate of 20%. Gain or loss will be computed separately for each block of ordinary shares sold (ordinary shares acquired separately at different times and prices). The deductibility of capital losses is restricted and generally may only be used to reduce capital gains to the extent thereof. However, individual taxpayers generally may deduct annually \$3,000 of capital losses in excess of their capital gains.

Medicare Tax. In general, high-income individuals, estates and trusts generally will be subject to a 3.8% Medicare tax (in addition to otherwise applicable federal income tax) on their investment income and gain, with limited exceptions. You should consult with your tax advisor regarding the effect, if any, of this tax on your ownership and disposition of our ordinary shares.

Passive Foreign Investment Company. A foreign corporation generally will be treated as a "passive foreign investment company," or PFIC, if, after applying certain "look-through" rules, either (i) 75% or more of its gross income is passive income or (ii) 50% or more of the average value of its assets is attributable to assets that produce or are held to produce passive income. Passive income for this purpose generally includes dividends, interest, rents, royalties and gains from securities and commodities transactions. The look-through rules require a foreign corporation that owns at least 25%, by value, of the stock of another corporation to treat a proportionate amount of assets and income of the other corporation as held or received directly by such foreign corporation. We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. The determination of whether or not we are a PFIC depends on the composition of our income and assets, including goodwill, from time to time.

Based on our income and/or assets, we believe that we were a PFIC from 2008 through 2012. Since PFIC shares are subject to the PFIC rules even in future years in which we are no longer a PFIC, our ordinary shares will be PFIC shares with respect to any U.S. shareholder that held our ordinary shares in 2008 through 2012. Based on our income and assets, we do not believe that we were a PFIC from 2013 through 2018. However, because the determination of whether we are, or will be, a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to various interpretations, there is a risk that the Internal Revenue Service may disagree with our determinations regarding our prior or present PFIC status. In addition, depending on future events, we could become a PFIC in future years.

U.S. Holders who own our ordinary shares during a taxable year in which we are a PFIC generally will be subject to increased U.S. tax liabilities and reporting requirements for that taxable year and all succeeding years, regardless of whether we continue to meet the income or asset test for PFIC status, although shareholder elections may apply in certain circumstances. U.S. Holders should consult their own tax advisors regarding our status as a PFIC and the consequences of investment in a PFIC.

If we are a PFIC for any taxable year during which you hold ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- (1) the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares,
- (2) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- (3) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts under (3) above that is allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses, and gains (but not losses) realized on the sale of the ordinary shares cannot be treated as capital, even if you hold the ordinary shares as capital assets. The portion of any distributions that are not treated as excess distributions are taxable as ordinary income in the current taxable year under the normal tax rules of the Code.

You may not avoid taxation under the rules described above by making a “qualified electing fund” election to include your share of our income on a current basis because we do not presently intend to prepare or provide information necessary to make such election.

Alternatively, a U.S. Holder of “marketable stock” in a PFIC may make a mark-to-market election for stock of a PFIC to elect out of the tax treatment discussed three paragraphs above. If you make a mark-to-market election for the ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of your taxable year over your adjusted basis in such ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the stock included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ordinary shares, as well as to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares, and any loss in excess of such amount is treated as capital loss. Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not passive foreign investment companies generally would apply to distributions by us.

The mark-to-market election is available only for stock which is regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission or on Nasdaq, or an exchange or market that the U.S. Secretary of the Treasury determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Please consult your tax advisor as to the availability of the mark-to-market election, based on the exchange on which we trade and the amount of trading of our ordinary shares, and the tax ramifications of such election (including the special rules that may apply to the gain realized in the year of the election).

Dividends paid by a PFIC (or by a company that was a PFIC in the year preceding the dividend) are not “qualified dividend income” for purposes of the preferential tax rate on dividends discussed above.

Special limitations may apply to the use of foreign tax credits arising in connection with distributions on PFIC shares as to which you should consult your tax advisor.

If you hold ordinary shares in any year in which we are a PFIC, you are generally required to file Internal Revenue Service Form 8621 every year. Please consult your tax advisor regarding your PFIC shareholder reporting obligation in connection with your investment.

United States return disclosure obligations (and related penalties) are imposed on U.S. individuals who hold certain specified foreign financial assets in excess of certain dollar thresholds. The definition of specified foreign financial assets would include our ordinary shares, unless they are held in an account at a domestic financial institution. Please consult with your tax advisor regarding the requirements of filing IRS Form 8938 under these rules.

Distributions on Ordinary Shares. Distributions made with respect to our ordinary shares to non-U.S. Holders who are not engaged in the conduct of a trade or business within the United States generally will not be subject to United States withholding tax.

Sale or Exchange of Ordinary Shares. A Non-U.S. Holder will not be subject to United States federal income tax on any gain realized upon the sale or exchange of ordinary shares unless (i) the gain is effectively connected with a trade or business in the United States of the Non-U.S. Holder (which gain, under certain circumstances, could be deemed to be effectively connected if a substantial portion of our assets were to ever consist of United States real property interests), or (ii) the Non-U.S. Holder is an individual who was present in the United States for 183 days or more in the taxable year of the disposition and other conditions exist.

United States Business. Dividends and gains that are effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States generally will be subject to tax in the same manner as they would be for U.S. Holder. Effectively connected dividends and gains received by a corporate Non-U.S. Holder may also be subject to an additional branch profits tax at a 30% rate or a lower tax treaty rate.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividends in respect of our ordinary shares or the proceeds received on the sale, exchange or redemption of our ordinary shares paid within the United States (and in certain cases, outside the United States) to U.S. Holders other than certain exempt recipients, such as corporations, and backup withholding tax may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on its U.S. federal income tax returns. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as credit against the U.S. Holder's U.S. federal income tax liability provided that the appropriate returns are timely filed.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status to the payor, under penalties of perjury, on an applicable IRS Form W-8.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We are subject to certain of the reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the Securities and Exchange Commission reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website (<http://www.ellomay.com>) promptly following the filing of our annual report with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

Any statement in this report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this report or any of our annual reports or to a registration statement or other documents filed by us, the contract or document is deemed to modify the description contained in this report. You must review the exhibits themselves for a complete description of the contract or document. In the event any of the documents that are filed as exhibits to our annual reports are not in English, the original language version is on file in our offices and is available upon request.

You may review a copy of our filings with the SEC, including exhibits and schedules, and obtain copies of such materials at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that we file electronically with the SEC. These SEC filings are also available to the public from commercial document retrieval services. Our filings commencing October 2013 may also be found at the TASE's website at <http://maya.tase.co.il> and at the Israeli Securities Authority's website at <http://www.magna.isa.gov.il>.

I. Subsidiary Information

Not applicable.

ITEM 11: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of risks, including foreign currency fluctuations and changes in interest rates. We regularly assess currency and interest rate risks to minimize any adverse effects on our business as a result of those factors and periodically use hedging transactions in order to attempt to limit the impact of such changes.

We hold cash and cash equivalents, marketable securities and restricted cash in various currencies, including euro and NIS. Our holdings in the Italian and Spanish PV Plants and in the Netherlands WtE Projects are denominated in euro and our holdings in the Talmei Yosef PV Plant and in Dori Energy are denominated in NIS. The financing we have in connection with our Italian PV Plants and the Netherlands WtE Projects is denominated in euro and the financing we have in connection with our Italian PV Plants bears interest that is based on EURIBOR rate. Our Debentures and the project finance debt of the Talmei Yosef PV Plant are denominated in NIS and are to be repaid (principal and interest) in NIS.

Inflation and Fluctuation of Currencies

The goal of our forward and swap transactions set forth below is to limit the impact of exchange rate and interest rate fluctuations on our statements of financial position. We do not hold derivative financial instruments for trading purposes. Nevertheless, under IFRS, we are required to treat our forward and swap transactions as though they were speculative investments. As a result, we are required to value these hedge positions at the end of each fiscal period and record a gain or loss equal to the difference in their market value from the last statements of financial position date. Accordingly, these differences could result in significant fluctuations in our reported net income. Following the change of presentation currency to the euro effective as of December 31, 2017 as explained below, we closed a significant portion of our euro/US\$ forward contracts during 2017 and during 2018.

Until December 31, 2017, our presentation currency was the U.S. dollar, while the functional currency of us and a majority of our subsidiaries is the euro. This difference exposed our statements of financial position to the effects of presentation currency translation adjustments. In order to manage this foreign exchange exposure we previously executed several forward transactions, of which euro/USD forward positions with an aggregate euro denominated principal of €25 million, with a weighted average rate of approximately 1.18 USD/EUR and expiration dates in November 2021-February 2022 were still in effect as of December 31, 2017. During 2018, we closed additional contracts and as of December 31, 2018 euro/USD forward positions with an aggregate euro denominated principal of €12 million expiring in November 2021 were still in effect. For more information see “Item 5.A: Impact of Inflation and Fluctuation of Currencies.”

In order to manage the currency risk resulting from the Series B Debentures, which are denominated in NIS, we executed currency swap transactions in April 2017. We exchanged Series B Debentures NIS denominated notional principal in the aggregate amount of NIS 83.232 million with a euro notional principal (currency swap transactions). Such currency swap transactions qualify for hedge accounting.

Interest Rate

As noted under “Item 4.B: Business Overview,” we entered into various project finance agreements that are based on EURIBOR rate and therefore we may be affected by adverse movements in interest rates.

In order to manage and limit the interest-rate risk resulting from financing secured or about to be secured from local financing institutions in Italy for our PV operations, we executed the following swap transactions as of December 31, 2018:

A euro 3.75 million interest swap transaction for a period of 15 years, payable semi-annually commencing on June 30, 2012, whereby we are the fixed rate payer (the fixed rate is set at 2.53%).

A euro 7.5 million interest swap transaction with a decreasing notional principal amount based on the amortization table. The interest swap transaction is for a period of 12 years, semi-annually, whereby we are the fixed rate payer (the fixed rate is set at 1.17%). This transaction was terminated in May 2018 along with the early repayment of the hedged loan.

A euro 25 million interest swap transaction commencing on May 2018 with a decreasing notional principal amount based on the amortization table until May 2028, replacing the Euribor 6 month rate with a fixed 6 month rate of 0.71%.

Sensitivity Analysis

A change as at December 31 in the exchange rates of the following euro against the USD, as indicated below would have increased (decreased) equity by the amounts shown below (after tax). This analysis is based on foreign currency exchange rate that we consider to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2018	
	Increase	Decrease
	Equity	Equity
	€ thousands	
Change in the exchange rate of:		
5% in the USD	169	(169)
5% in NIS	(367)	367

	December 31, 2017	
	Increase	Decrease
	Equity	Equity
	€ thousands	
Change in the exchange rate of:		
5% in the USD	761	(761)
5% in NIS	(312)	312

A change in interest rate would have increased (decreased) profit or loss by the amounts shown below:

	December 31,	
	2018	2017
	Profit or loss	Profit or loss
	€ in thousands	
Increase of 1%	1,012	804
Increase of 3%	2,604	2,473
Decrease of 1%	(581)	(863)
Decrease of 3%	(2,172)	(2,532)

For more information see Note 21E to our annual financial statements included elsewhere in this report. We do not otherwise believe the disclosure required by Item 11 of this report to be material to us.

ITEM 12: Description of Securities Other Than Equity Securities

Not Applicable (for a description of our Debentures see “Item 5.B: Operating and Financial Review and Prospects; Liquidity and Capital Resources”).

PART II

ITEM 13: Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

ITEM 14: Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

ITEM 15: Controls and Procedures

(a) Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that the information required in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013.

Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2018, our internal control over financial reporting is effective based on those criteria.

(c) Attestation Report of the Registered Public Accounting Firm

Not Applicable.

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16: [Reserved]

ITEM 16A: Audit Committee Financial Expert

Mordechai Bignitz has been designated as the Audit Committee financial expert and was also determined to be “independent” under the applicable SEC and NYSE American LLC regulations.

ITEM 16B: Code of Ethics

We adopted a code of business conduct and ethics which is applicable to all of our officers, directors and employees, including our principal executive, financial and accounting officers and persons performing similar functions, or the Code of Ethics.

The Code of Ethics, in its current form, is posted on our website at the following web address: http://www.ellomay.com/files/company/code_of_conduct.pdf. We will provide a copy of the Code of Ethics to any person, without charge, upon written request addressed to our Chief Financial Officer at our office in Tel Aviv, Israel.

ITEM 16C: Principal Accountant Fees and Services

Fees paid to the Independent Registered Public Accounting Firm

Somekh Chaikin, an independent registered public accounting firm and a member firm of KPMG International, serves as our principal independent registered public accounting firm since December 2011.

The following table sets forth, for each of the years indicated, the aggregate fees paid for professional audit services and other services rendered by our principal independent registered public accounting firms.

	<u>2017</u>	<u>2018</u>
	(euro in thousands)	
Audit Fees ⁽¹⁾	168	177
Audit-Related Fees ⁽²⁾	29	25
Tax Fees ⁽³⁾	27	39
Total	224	241

(1) Professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements or services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements.

(2) Including professional services related to due diligence investigations.

(3) Professional services rendered by our independent registered public accounting firm for international and local tax compliance, tax advice services and tax planning.

Audit Committee's pre-approval policies and procedures

Our Audit Committee nominates and engages our registered public accounting firm to audit our financial statements. See also the description under the heading in "Item 6.C: Board Practices." In July 2003, our Audit Committee also adopted a policy requiring management to obtain the Audit Committee's approval before engaging our independent auditors worldwide to provide any other audit or permitted non-audit services to us. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the Audit Committee pre-approves all specific audit and non-audit services and related fees in the categories audit service, audit-related service and tax services that may be performed by our independent auditors worldwide.

ITEM 16D: Exemptions from the Listing Standards for Audit Committees

Not Applicable.

ITEM 16E: Purchase of Equity Securities by the Company and Affiliated Purchasers

Not Applicable.

ITEM 16F: Change in Registrant's Certifying Accountants

Not Applicable.

ITEM 16G: Corporate Governance

NYSE American LLC Company Guide and Home Country Laws

Section 110 of the NYSE American LLC Company Guide provides that the NYSE American LLC will consider the laws, customs and practices of an issuer's country of domicile, to the extent not contrary to the federal securities laws, regarding such matters as: (i) the election and composition of the board of directors; (ii) the issuance of quarterly earnings statements; (iii) shareholder approval requirements; and (iv) quorum requirements for shareholder meetings. If we wish to seek relief under these provisions we are required to provide written certification from independent local counsel that the non-complying practice is not prohibited by our home country law.

Our corporate governance practices currently differ from those followed by U.S. companies listed on the NYSE American LLC in connection with the quorum required for shareholders meetings. While the NYSE American LLC Company Guide requires a quorum for shareholder meetings of at least 33-1/3% of our outstanding ordinary shares, our Articles, as permitted by the Companies Law, provide for a quorum of two or more shareholders holding more than 25% of the total voting power attached to our shares and for a quorum of any two shareholders, present in person or by proxy at the subsequent adjourned meeting. For more information concerning the quorum requirements for shareholders meetings and adjourned shareholders meetings see “Item 10.B: Memorandum of Association and Second Amended and Restated Articles.”

In addition, under the Companies Law we may not be required to obtain shareholder approval for certain issuances of shares in excess of 20% of our outstanding shares, as would be required in certain circumstances by the NYSE American LLC Company Guide. At this time, we do not have any intention to enter into any such transaction; however, we may in the future do so and opt to comply with the Companies Law, which may not require shareholder approval. Any such determination to follow the Companies Law’s requirements rather than the standards applicable to U.S. companies listed on NYSE American LLC will be made by us based on the circumstances existing at the time approval is required.

Controlled Company

By virtue of the 2008 Shareholders Agreement, we are a “controlled company” as defined in Section 801 of the NYSE American LLC Company Guide. As a result, we are exempt from certain of the NYSE American LLC corporate governance requirements, including the requirement that a majority of the board of directors be independent, the requirement applicable to the nomination process of directors and the requirements applicable to the determination or recommendation of executive compensation by a committee comprised of independent directors or by a majority of the independent directors. We follow the requirements of the Companies Law with respect to these issues, including the requirement that we appoint two external directors, all as more fully described in “Item 6.B: Compensation” and “Item 6.C: Board Practices.”

If the “controlled company” exemptions would cease to be available to us under the NYSE American LLC Company Guide, we may elect to follow “home country laws” (i.e. Israeli law) instead of some or all of the applicable NYSE American LLC Company Guide requirements as described above.

ITEM 16H: Mine Safety Disclosure

Not Applicable.

PART III

ITEM 17: Financial Statements

Not Applicable.

ITEM 18: Financial Statements

Our Financial Statements are included in pages F-1 – F-91 of this report.

The Financial statements of Dorad Energy Ltd. are included in pages FD-1 – FD-48 of this report.

ITEM 19: Exhibits

Number	Description
1.1	Memorandum of Association of the Registrant (translated from Hebrew), reflecting amendments through June 9, 2011⁽¹⁾
1.2	Second Amended and Restated Articles of the Registrant, reflecting amendments through June 21, 2018
2.1	Specimen Certificate for ordinary shares⁽²⁾
4.1	1998 Share Option Plan for Non-Employee Directors⁽³⁾
4.2	2000 Stock Option Plan⁽¹⁾
4.3	Form of Indemnification Undertaking between the Registrant and its officers and directors, granted until June 21, 2018⁽¹⁾
4.4	Form of Indemnification Undertaking and Exemption between the Registrant and its officers and directors, granted following June 21, 2018⁽⁴⁾
4.5	Form of Registration Rights Agreement, dated September 12, 2005, among the Registrant, certain investors, Bank Hapoalim, Bank Leumi and Israel Discount Bank⁽⁵⁾
4.6	Management Services Agreement, by and among the Registrant, Kanir Joint Investments (2005) Limited Partnership and Meisaf Blue & White Holdings Ltd., effective as of March 31, 2008⁽⁶⁾
4.7	Giaché Building Right Agreement (summary of Italian version)^{(7)*}
4.8	Massaccesi Building Right Agreement (summary of Italian version)^{(7)*}
4.9	Troia 8 Building Right Agreement (summary of Italian version)^{(7)*}
4.10	Troia 9 Building Right Agreement (summary of Italian version)^{(7)*}
4.11	Investment Agreement, among U. Dori Group Ltd., U. Dori Energy Infrastructures Ltd. (currently Amos Luzon Entrepreneurship and Energy Group Ltd.) and Ellomay Clean Energy Ltd., dated November 25, 2010 (summary of Hebrew version)^{(7)*}
4.12	Shareholders Agreement, among U. Dori Group Ltd. (currently Amos Luzon Entrepreneurship and Energy Group Ltd.), Ellomay Clean Energy Ltd. and U. Dori Energy Infrastructures Ltd., dated November 25, 2010 (summary of Hebrew version)^{(7)*}
4.13	Acquafresca Building Right Agreement (summary of Italian version)^{(2)*}
4.14	D'Angella Building Right Agreement (summary of Italian version)^{(2)*}
4.15	Rinconada II Building Right Agreement (summary of Spanish version)^{(2)*}

Number	Description
4.16	Amendment No. 1 to Management Services Agreement, by and among the Registrant, Kanir Joint Investments (2005) Limited Partnership and Meisaf Blue & White Holdings Ltd., dated June 18, 2013⁽⁸⁾
4.17	Soleco Building Right Agreement (summary of Italian version)^{(8)*}
4.18	Tecnoenergy Building Right Agreement (summary of Italian version)^{(8)*}
4.19	Deed of Trust between the Registrant and Hermetic Trust (1975) Ltd., governing the Company's Series A Debentures, dated December 30, 2013 (translation of Hebrew version)^{(8)*}
4.20	Rodríguez I Lease Agreements (summary of Spanish version)^{(3)*}
4.21	Rodríguez II Lease Agreements (summary of Spanish version)^{(3)*}
4.22	Fuente Librilla Lease Agreement (summary of Spanish version)^{(3)*}
4.23	Updated Directors and Officers Compensation Policy, adopted July 5, 2016⁽⁹⁾
4.24	Deed of Trust between the Registrant and Hermetic Trust (1975) Ltd., governing the Company's Series B Debentures, dated March 1, 2017 (translation of Hebrew version)⁽¹⁰⁾
4.25	Talmei Yosef Lease Agreement (summary of Hebrew version)⁽⁹⁾
8	List of Subsidiaries of the Registrant
12.1	Certification of Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) (Section 302 Certification)
12.2	Certification of Principal Financial Officer required by Rule 13a-14(a) and Rule 15d-14(a) (Section 302 Certification)
13	Certification of Principal Executive Officer and Principal Financial Officer required by Rule 13a-14(b) and Rule 15d-14(b) (Section 906 Certification)
15.1	Consent of Somekh Chaikin, Member Firm of KPMG International, Independent Registered Public Accounting Firm with respect to our financial statements
15.2	Consent of Somekh Chaikin, Member Firm of KPMG International, Independent Registered Public Accounting Firm with respect to the financial statements of Dorad Energy Ltd.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Label Linkbase Document
101.PRE**	XBRL Taxonomy Presentation Linkbase Document

* The original language version is on file with the Registrant and is available upon request.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

- (1) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2012 and incorporated by reference herein.
- (2) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2011 and incorporated by reference herein.
- (3) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2014 and incorporated by reference herein.
- (4) Included in the Registrant's Form 6-K dated May 17, 2018 and incorporated by reference herein.
- (5) Included in the Registrant's Form 6-K dated October 14, 2005 and incorporated by reference herein.
- (6) Included in the Registrant's Form 6-K dated December 1, 2008 and incorporated by reference herein.
- (7) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2010 and incorporated by reference herein.
- (8) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2013 and incorporated by reference herein.
- (9) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2017 and incorporated by reference herein.
- (10) Previously filed with the Registrant's Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Ellomay Capital Ltd.

By: /s/ Ran Fridrich

Ran Fridrich

Chief Executive Officer and Director

Dated: March 28, 2019

Ellomay Capital Ltd. and its Subsidiaries

**Consolidated Financial Statements
As at December 31, 2018**

Consolidated Financial Statements as at December 31, 2018

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Ellomay Capital Ltd.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Ellomay Capital Ltd. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of profit or loss and other comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Convenience translation

The accompanying consolidated financial statements as of and for the year ended December 31, 2018 have been translated into United States dollars (“dollars”) solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in euro have been translated into dollars on the basis set forth in note 2C of the notes to the consolidated financial statements.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International

We have served as the Company’s auditor since 2011.

Tel-Aviv, Israel
March 28, 2019

	Note	December 31,		
		2018	2017	2018
		€ in thousands		Convenience Translation into US\$ in thousands (Note 2C)
Assets				
Current assets:				
Cash and cash equivalents	3	36,882	23,962	42,231
Marketable securities	4	2,132	2,162	2,441
Restricted cash and marketable securities	4	4,653	3,265	5,328
Asset from concession project	6D	1,292	1,286	1,479
Financial assets	6B	1,282	1,249	1,468
Trade and other receivables	5	12,623	10,645	14,454
		<u>58,864</u>	<u>42,569</u>	<u>67,401</u>
Non-current assets				
Investment in equity accounted investee	6	27,746	27,655	31,770
Advances on account of investments	6B	798	8,825	914
Asset from concession project	6D	25,710	27,725	29,439
Fixed assets	7	87,220	78,837	99,870
Intangible asset	6D	4,882	5,505	5,590
Restricted cash and deposits	4	2,062	3,660	2,361
Deferred tax	19	2,423	1,777	2,774
Long term receivables	5	1,455	1,535	1,666
		<u>152,296</u>	<u>155,519</u>	<u>174,384</u>
Total assets		<u>211,160</u>	<u>198,088</u>	<u>241,785</u>
Liabilities and Equity				
Current liabilities				
Current maturities of long term loans	9	5,864	3,103	6,714
Debentures	12	8,758	4,644	10,028
Trade payables		2,126	1,349	2,434
Other payables	8	3,103	2,187	3,553
		<u>19,851</u>	<u>11,283</u>	<u>22,729</u>
Non-current liabilities				
Finance lease obligations	10	-	3,690	-
Long-term loans	11	60,228	42,091	68,963
Debentures	12	42,585	52,987	48,761
Deferred tax	19	6,219	5,982	7,121
Other long-term liabilities	13	5,320	4,555	6,092
		<u>114,352</u>	<u>109,305</u>	<u>130,937</u>
Total liabilities		<u>134,203</u>	<u>120,588</u>	<u>153,666</u>
Equity				
Share capital	16	19,980	19,980	22,878
Share premium		58,344	58,339	66,806
Treasury shares		(1,736)	(1,736)	(1,988)
Reserves		1,169	2,357	1,339
Retained earnings (accumulated deficit)		758	(299)	868
Total equity attributed to shareholders of the Company		<u>78,515</u>	<u>78,641</u>	<u>89,903</u>
Non-Controlling Interest		<u>(1,558)</u>	<u>(1,141)</u>	<u>(1,784)</u>
Total equity		<u>76,957</u>	<u>77,500</u>	<u>88,119</u>
Total liabilities and equity		<u>211,160</u>	<u>198,088</u>	<u>241,785</u>

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

Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

	Note	For the year ended December 31,			
		2018	2017	2016	2018
		€ in thousands (except per share data)		Convenience Translation into US\$ in thousands (Note 2C)	
Revenues	18E	18,117	13,636	11,632	20,745
Operating expenses	18B	(6,342)	(2,549)	(2,082)	(7,262)
Depreciation and amortization expenses	18B	(5,816)	(4,518)	(4,411)	(6,660)
Gross profit		5,959	6,569	5,139	6,823
Project development costs		(2,878)	(2,739)	(2,201)	(3,295)
General and administrative expenses	18C	(3,600)	(2,420)	(2,032)	(4,122)
Share of profits of equity accounted investee	6	2,545	1,531	1,375	2,914
Other income, net	18D	884	18	90	1,012
Operating Profit		2,910	2,959	2,371	3,332
Financing income	18A	2,936	1,333	263	3,362
Financing income (expenses) in connection with derivatives, net	18A	494	(3,156)	636	566
Financing expenses	18A	(5,521)	(7,405)	(3,333)	(6,322)
Financing income (expenses), net		(2,091)	(9,228)	(2,434)	(2,394)
Profit (loss) before taxes on income		819	(6,269)	(63)	938
Taxes on income	19	(215)	(372)	(569)	(246)
Profit (loss) for the year		604	(6,641)	(632)	692
Profit (loss) attributable to:					
Owners of the Company		1,057	(6,115)	(209)	1,211
Non-controlling interests		(453)	(526)	(423)	(519)
Profit (loss) for the year		604	(6,641)	(632)	692
Other comprehensive income (loss) items					
That after initial recognition in comprehensive income (loss) were or will be transferred to profit or loss:					
Foreign currency translation differences for foreign operations		(787)	(359)	692	(901)
Effective portion of change in fair value of cash flow hedges		(1,008)	(1,244)	-	(1,154)
Net change in fair value of cash flow hedges transferred to profit or loss		643	1,382	-	736
Total other comprehensive income (loss)		(1,152)	(221)	692	(1,319)
Total comprehensive income (loss) for the year		(548)	(6,862)	60	(627)
Earnings (loss) per share					
Basic earnings (loss) per share	20	0.10	(0.57)	(0.02)	0.11
Diluted earnings (loss) per share		0.10	(0.57)	(0.02)	0.11

* Please refer to Note 2C for functional and presentation currency.

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

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company							Non-	Total	
								controlling	Equity	
	Share capital	Share premium	Retained earnings (accumulated deficit)	Treasury shares	Translation reserve from foreign operations	Hedging Reserve	Total	Interests		
	€ in thousands									
Balance as at January 1, 2018	19,980	58,339	(299)	(1,736)	2,219	138	78,641	(1,141)	77,500	
Profit for the year	-	-	1,057	-	-	-	1,057	(453)	604	
Other comprehensive loss for the year	-	-	-	-	(823)	(365)	(1,188)	36	(1,152)	
Total comprehensive loss for the year	-	-	1,057	-	(823)	(365)	(131)	(417)	(548)	
Transactions with owners of the Company, recognized directly in equity:										
Share-based payments	-	5	-	-	-	-	5	-	5	
Balance as at December 31, 2018	<u>19,980</u>	<u>58,344</u>	<u>758</u>	<u>(1,736)</u>	<u>1,396</u>	<u>(227)</u>	<u>78,515</u>	<u>(1,558)</u>	<u>76,957</u>	
Balance as at January 1, 2017	19,980	58,334	5,816	(1,722)	2,664	-	85,072	(701)	84,371	
Loss for the year	-	-	(6,115)	-	-	-	(6,115)	(526)	(6,641)	
Other comprehensive loss for the year	-	-	-	-	(445)	138	(307)	86	(221)	
Total comprehensive loss for the year	-	-	(6,115)	-	(445)	138	(6,422)	(440)	(6,862)	
Transactions with owners of the Company, recognized directly in equity:										
Own shares acquired	-	-	-	(14)	-	-	(14)	-	(14)	
Share-based payments	-	5	-	-	-	-	5	-	5	
Balance as at December 31, 2017	<u>19,980</u>	<u>58,339</u>	<u>(299)</u>	<u>(1,736)</u>	<u>2,219</u>	<u>138</u>	<u>78,641</u>	<u>(1,141)</u>	<u>77,500</u>	
Balance as at January 1, 2016*	19,980	58,331	8,148	(1,711)	1,938	-	86,686	(244)	86,442	
Loss for the year	-	-	(209)	-	-	-	(209)	(423)	(632)	
Other comprehensive loss for the year	-	-	-	-	726	-	726	(34)	692	
Total comprehensive loss for the year	-	-	(209)	-	726	-	517	(457)	60	
Transactions with owners of the Company, recognized directly in equity:										
Dividends to owners	-	-	(2,123)	-	-	-	(2,123)	-	(2,123)	
Own shares acquired	-	-	-	(11)	-	-	(11)	-	(11)	

Share-based payments	-	3	-	-	-	-	3	-	3
Balance as at December 31, 2016	<u>19,980</u>	<u>58,334</u>	<u>5,816</u>	<u>(1,722)</u>	<u>2,664</u>	<u>-</u>	<u>85,072</u>	<u>(701)</u>	<u>84,371</u>

* Please refer to note 2C for functional and presentation currency.

Consolidated Statements of Changes in Equity

	Attributable to shareholders of the Company						Non-controlling Interests	Total Equity	
	Share capital	Share premium	Retained earnings (accumulated deficit)	Treasury shares	Translation reserve from foreign operations	Hedging Reserve			Total
US\$ in thousands									
Convenience translation into US\$ (Note 2C)									
Balance as at January 1, 2018	22,878	66,800	(343)	(1,988)	2,541	158	90,046	(1,306)	88,740
Profit for the year			1,211				1,211	(519)	692
Other comprehensive loss for the year	-	-	-	-	(942)	(418)	(1,360)	41	(1,319)
Total comprehensive loss for the year	-	-	1,211	-	(942)	(418)	(149)	(478)	(627)
Transactions with owners of the Company, recognized directly in equity:									
Share-based payments	-	6	-	-	-	-	6	-	6
Balance as at December 31, 2018	22,878	66,806	868	(1,988)	1,599	(260)	89,903	(1,784)	88,119

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

Consolidated Statements of Cash Flows

	For the year ended December 31			
	2018	2017	*2016	2018
	€ in thousands			Convenience Translation into US\$ in thousands (Note 2C)
Cash flows from operating activities				
Profit (loss) for the year	604	(6,641)	(632)	692
<u>Adjustments for:</u>				
Net Financing expenses	2,091	9,228	2,434	2,394
Depreciation and amortization	5,816	4,518	4,411	6,660
Share-based payment transactions	5	5	3	6
Share of profits of equity accounted investees	(2,545)	(1,531)	(1,375)	(2,914)
Payment of interest on loan from an equity accounted investee	3,036	407	4,646	3,476
Change in trade receivables and other receivables	(17)	2,012	(1,771)	(19)
Change in other assets	37	126	(1,087)	42
Change in asset from concessions project	1,431	(84)	-	1,639
Change in accrued severance pay, net	15	2	(16)	17
Change in trade payables	633	(258)	802	725
Change in other payables	(1,565)	(2,655)	2,148	(1,792)
Income tax expense	215	372	569	246
Income taxes paid	(77)	(42)	(54)	(88)
Interest received	1,835	505	224	2,101
Interest paid	(4,924)	(3,659)	(2,985)	(5,638)
	<u>5,986</u>	<u>8,946</u>	<u>7,949</u>	<u>6,855</u>
Net cash from operating activities	<u>6,590</u>	<u>2,305</u>	<u>7,317</u>	<u>7,547</u>

*Please refer to note 2C for functional and presentation currency.

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

Consolidated Statements of Cash Flows

	For the year ended December 31,			
	2018	2017	*2016	2018
	€ in thousands			Convenience Translation into US\$ in thousands (Note 2C)
Cash flows from investing activities:				
Acquisition of fixed assets	(3,708)	(7,576)	(5,122)	(4,246)
Acquisition of subsidiary, net of cash acquired (see Note 6C and Note 6D)	(1,000)	(9,851)	-	(1,145)
Investment in equity accounted investee	-	-	(812)	-
Advances on account of investments	-	(8,000)	(710)	-
Repayment of loan from an equity accounted investee	1,540	-	2,388	1,763
Acquisition of marketable securities	-	(6,677)	(923)	-
Proceeds from marketable securities	3,316	1,277	5,814	3,797
Proceeds from settlement of derivatives, net	664	620	-	760
Decrease (increase) in restricted cash, net	(3,107)	3,225	(56)	(3,558)
Loans to others	(3,500)	(361)	-	(4,008)
Net cash from (used in) investing activities	<u>(5,795)</u>	<u>(27,343)</u>	<u>579</u>	<u>(6,637)</u>
Cash flows from financing activities:				
Dividends paid	-	-	(2,123)	-
Repayment of long-term loans and finance lease obligations	(17,819)	(2,224)	(1,089)	(20,403)
Repayment of Debentures	(4,668)	(4,842)	(4,954)	(5,345)
Repurchase of own shares	-	(14)	(11)	-
Proceeds from long term loans	34,745	5,575	5,726	39,784
Proceeds from issuance of debentures, net	-	31,175	-	-
Net cash from (used in) financing activities	<u>12,258</u>	<u>29,670</u>	<u>(2,451)</u>	<u>14,036</u>
Effect of exchange rate fluctuations on cash and cash equivalents	(133)	(3,156)	(153)	(152)
Increase in cash and cash equivalents	12,920	1,476	5,292	14,794
Cash and cash equivalents at the beginning of year	<u>23,962</u>	<u>22,486</u>	<u>17,194</u>	<u>27,437</u>
Cash and cash equivalents at the end of the year	<u>36,882</u>	<u>23,962</u>	<u>22,486</u>	<u>42,231</u>

* Please refer to note 2C for functional and presentation currency.

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

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 1 – General

- A. Ellomay Capital Ltd. (hereinafter - the "Company"), is an Israeli Company operating in the business of renewable energy and power generator and developer of renewable energy and power projects in Europe and Israel. The Company owns seventeen photovoltaic plants (each, a "PV Plant" and, together, the "PV Plants") that are connected to their respective national grids and operating as follows: (i) twelve photovoltaic plants in Italy with an aggregate installed capacity of approximately 22.6 MWp, (ii) four photovoltaic plants in Spain with an aggregate installed capacity of approximately 7.9 MWp and (iii) one photovoltaic plant in Israel with an aggregate installed capacity of approximately 9 MWp. In addition, the Company indirectly owns 9.375% of Dorad Energy Ltd. (hereinafter - "Dorad"), 75% of Chashgal Elyon Ltd., Agira Sheuva Electra, L.P. and Ellomay Pumped Storage (2014) Ltd., all of which are involved in a project to construct a 156 MW pumped storage hydro power plant in the Manara Cliff, Israel, wholly owns Talasol Solar S.L.U which is promoting the construction of a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain and 51% of Groen Gas Goor B.V. and of Groen Gas Oude-Tonge B.V., project companies operating anaerobic digestion plants with a green gas production capacity of approximately 375 Nm³/h, in Goor, the Netherlands and 475 Nm³/h, in Oude Tonge, the Netherlands, respectively.

The ordinary shares of the Company are listed on the NYSE American and on the Tel Aviv Stock Exchange (under the symbol "ELLO"). The address of the Company's registered office is 9 Rothschild Blvd., Tel Aviv, Israel.

B. Definitions:

In these financial statements:

Consolidated companies/subsidiaries – Companies, including partnerships, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

Investee companies – Subsidiaries and companies, including a partnership, the Company's investment in which is stated, directly or indirectly, on the equity basis.

Related party - Within its meaning in IAS 24 (2009), "Related Party Disclosures".

Unless otherwise noted, all references to "€," "euro" or "EUR" are to the legal currency of the European Union, all references to "USD," "US dollar," "dollars" and "\$" are to United States dollars, and all references to "NIS" are to New Israeli Shekels.

Note 2 – Significant Accounting Policies**A. Basis of preparation of the financial statements**

1. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The operating cycle of the Company is one year.

The consolidated financial statements were authorized for issue on March 28, 2019 by the Company's Board of Directors.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 – Significant Accounting Policies (cont'd)**A. Basis of preparation of the financial statements (cont'd)**

2. Consistent accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3. Basis of measurement - The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- (i) Investment in investee accounted for using the equity method;
- (ii) Marketable securities;
- (iii) Deferred tax assets and liabilities;
- (iv) Financial instruments measured at fair value through other comprehensive income;
- (v) Derivative financial instruments and other receivables measured at fair value through profit or loss; and
- (vi) Provisions.

B. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions regarding circumstances and events that involve considerable uncertainty, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The key assumptions made in the financial statements with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value measurement of non-trading derivatives:

Within the scope of the valuation of financial assets and derivatives not traded on an active market, management makes assumptions about inputs used in the valuation models. For information on a sensitivity analysis of levels 2 and 3 financial instruments carried at fair value see Note 21 regarding financial instruments.

Recognition of deferred tax asset in respect of tax losses:

The probability that in the future there will be taxable profits against which carried forward losses can be utilized. See Note 19 regarding taxes on income.

Assessment of probability of contingent liabilities:

Whether it is more likely than not that an outflow of economic resources will be required in respect of legal claims pending against the Company and its investees. See Note 14 regarding commitments and contingent liabilities

Business combination:

Fair value of assets and liabilities acquired in a business combination. See Note 6 regarding subsidiaries.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 – Significant Accounting Policies (cont'd)**C. Functional and presentation currency**

These consolidated financial statements are presented in euro, which is the Company's functional currency, and have been rounded to the nearest thousand, except when otherwise indicated.

The functional currency is examined for the Company and for each of the subsidiaries separately. Items included in the financial statements of each of the Company's subsidiaries and investee are measured using their functional currency. The euro is the currency that represents the principal economic environment in which the Company operates.

Foreign currency transactions-

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss, except for the following differences which are recognized in other comprehensive income, arising on the translation of:

- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective;
- Qualifying cash flow hedges to the extent the hedge is effective.

Foreign operations-

The assets and liabilities of foreign operations, including adjustments arising on acquisition, are translated at exchange rates at the reporting date. The income and expenses for each period presented in the statement of profit or loss and other comprehensive income (loss) are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions.

Foreign currency exchange differences are recognized in equity as a separate component of other comprehensive income (loss): "foreign currency translation adjustments".

When the foreign operation is a non-wholly-owned subsidiary of the Company, then the relevant proportionate share of the foreign operation translation difference is allocated to the non-controlling interests. On a total or partial disposal of a foreign operation, the relevant part of the other comprehensive income (loss) is recognized in the statement of comprehensive income (loss).

Generally, foreign currency differences from a monetary item receivable from or payable to a foreign operation, including foreign operations that are subsidiaries, are recognized in profit or loss in the consolidated financial statements. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity as part of the translation reserve.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 – Significant Accounting Policies (cont'd)**C. Functional and presentation currency (cont'd)****Change in Presentation Currency-**

Effective December 31, 2017, the Company changed its presentation currency from the United States dollar to the euro. The Company ceased using the U.S. dollar as its presentation currency to assist investors to evaluate its financial results as the Company's functional currency is the euro and a substantial portion of its assets, revenues and liabilities is denominated in euro.

Furthermore, the change reduced the impact of the volatility of the euro/USD exchange rate on the Company's operating results. The consolidated financial statements for all prior years presented have been translated into euro. Assets and liabilities have been translated using period end exchange rates, equity transactions have been translated using the exchange rate in effect on the date of the specific transaction or the average exchange rate during the respective period, and revenues, expenses, gains, losses, and cash flow amounts have been translated into the presentation currency using the average exchange rate during the respective period. For the convenience of the reader, the reported euro figures as of December 31, 2018 and for the year then ended, are presented in dollars, translated at the representative rate of exchange as of December 31, 2018 (euro 0.873 = US\$ 1.00). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

D. Basis of consolidation and equity method accounting1. *Subsidiaries*

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

2. *Transactions eliminated upon consolidation*

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Company's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. *Investment in associates and joint ventures (equity accounted investees)*

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account. Joint ventures are joint arrangements in which the Company has rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs that are directly attributable to an expected acquisition of an associate or joint venture. The consolidated financial statements include the Company's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 – Significant Accounting Policies (cont'd)**D. Basis of consolidation and equity method accounting (cont'd)**3. *Investment in associates and joint ventures (equity accounted investees) (cont'd)*

When the Company increases its interest in an equity accounted investee while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains the same. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form a part thereof, is reduced to zero. When the Company's share of long-term interests that form a part of the investment in the investee is different from its share in the investee's equity, the Company continues to recognize its share of the investee's losses, after the equity investment was reduced to zero, according to its economic interest in the long-term interests. The recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

4. *Business combinations*

The Company implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Company and others are taken into account when assessing control.

The Company recognizes goodwill on acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree as well as the fair value at the acquisition date of any pre-existing equity right of the Company in the acquiree, less the net amount of the identifiable assets acquired and the liabilities assumed.

If the Company pays a bargain price for the acquisition (including negative goodwill), it recognizes the resulting gain in profit or loss on the acquisition date. Furthermore, goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Company. In a step acquisition, the difference between the acquisition date fair value of the Company's pre-existing equity rights in the acquiree and the carrying amount at that date is recognized in profit or loss under other income or expenses.

Costs associated with the acquisitions that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees are expensed in the period the services are received.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**D. Basis of consolidation and equity method accounting (cont'd)**5. *Non-controlling interests*

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquire, on a transaction-by-transaction basis. This accounting policy choice does not apply to other instruments that meet the definition of non-controlling interests (for example: options to acquire ordinary shares). Such instruments will be measured at fair value or in accordance with other relevant IFRSs.

Allocation of comprehensive income to the shareholders:

Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests. Total comprehensive income is allocated to the owners of the Company and the non-controlling interests even if the result is a negative balance of non-controlling interests.

E. Fixed assets1. *Recognition and measurement*

Fixed assets items are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the fixed asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Company has an obligation to dismantle and remove the asset or to restore the site), and capitalized borrowing costs. Project licenses are included in the cost of photovoltaic plants.

Specific and non-specific borrowing costs are capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources that were not specifically capitalized. Other borrowing costs are expensed as incurred.

The costs of replacing part of a fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Company and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

Gains and losses on disposal of a fixed asset item are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized in profit or loss.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)

E. Fixed assets (cont'd)

2. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value. An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the fixed asset item.

The estimated useful lives are as follows:

	%	Mainly %
Office furniture and equipment	6-33	33
Photovoltaic plants in Spain	4	4
Photovoltaic plants in Italy	5	5
Anaerobic digestion plants in the Netherlands	8	8
Leasehold improvements	Over the shorter of the lease period or the life of the asset	7

The estimated useful life of the project licenses of photovoltaic plants that are carried at cost is 20 years for the Company's Italian subsidiaries and 25 years for the Company's Spanish subsidiaries. The estimated useful life of the project licenses of anaerobic digestion plants that are carried at cost is 12 years. The fixed assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted if appropriate.

F. Financial instruments

Non-derivative Financial assets – policy applicable as from January 1, 2018

The Company's financial assets include cash and cash equivalents, marketable securities, restricted cash, trade receivables, loan to an equity accounted investee, service concession receivables and other receivables.

Initial recognition and measurement of financial assets

The Company initially recognizes loans, receivables and deposits on the date that they are created. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Company to the cash flows from the asset expire, or when the Company transfers the rights to receive the cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)

F. Financial instruments (cont'd)

Non-derivative Financial assets – policy applicable as from January 1, 2018 (cont'd)*Classification of financial assets into categories and the accounting treatment of each category*

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; fair value through other comprehensive income – investments in debt instruments; fair value through other comprehensive income – investments in equity instruments; or fair value through profit or loss.

Financial assets are not reclassified in subsequent periods unless, and only if, the Company changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated at fair value through profit or loss:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the debt instrument give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss.

Assessment whether cash flows are solely payments of principal and interest

For the purpose of assessing whether the cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- Contingent events that would change the timing or amount of the cash flows;
- Terms that may change the stated interest rate, including variable interest;
- Extension or prepayment features; and
- Terms that limit the Company's claim to cash flows from specified assets (for example a non-recourse financial asset).

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**F. Financial instruments (cont'd)****Non-derivative Financial assets – policy applicable as from January 1, 2018 (cont'd)*****Assessment whether cash flows are solely payments of principal and interest (cont'd)***

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation, received or paid, for early termination of the contract. Additionally, for a financial asset acquired at a significant premium or discount compared to its contractual stated value, a feature that permits or requires prepayment at an amount that substantially represents the contractual stated value plus accrued (but unpaid) interest (which may also include reasonable additional compensation, received or paid, for early termination), is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Subsequent measurement and gains and losses***Financial assets at fair value through profit or loss***

These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss (other than certain derivatives designated as hedging instruments).

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Non-derivative financial assets – policy applicable before January 1, 2018***Initial recognition and measurement of financial assets***

The Company initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument, meaning on the date the Company undertook to purchase or sell the asset.

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, including service concession receivables and cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Company to the cash flows from the asset expire, or the Company transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

When the Company retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Note 2 - Significant Accounting Policies (cont'd)**F. Financial instruments (cont'd)****Non-derivative financial assets – policy applicable before January 1, 2018 (cont'd)*****Classification of financial assets into categories and the accounting treatment of each category***

The Company classifies its financial assets according to the following categories:

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then such debt securities are classified as held-to-maturity. Held-to-maturity investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. Held-to-maturity financial assets include debentures.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy, providing that the designation is intended to prevent an accounting mismatch, or the asset is a combined instrument including an embedded derivative.

Financial assets at fair value through profit or loss (cont'd)

Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets designated at fair value through profit or loss also include equity investments that otherwise would have been classified as available for sale.

Financial assets classified as held-for-trading comprise securities that are held to support the Company's short-term liquidity needs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables, investments in non-marketable debentures and service concession receivables.

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**F. Financial instruments (cont'd)****Non-derivative financial assets – policy applicable before January 1, 2018 (cont'd)***Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, foreign currency differences and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for financial assets classified as available-for-sale. A dividend received in respect of available-for-sale financial assets is recognized in profit or loss on the date the entity's right to receive the dividend is established. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss.

Non-derivative financial liabilities

The Company's financial liabilities include loans and borrowings, trade payables, other payables, finance lease obligations, debentures, long-term loans and other long-term liabilities.

Initial recognition of financial liabilities

The Company initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Subsequent measurement of financial liabilities

Financial liabilities (other than financial liabilities at fair value through profit or loss) are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are designated at fair value through profit or loss if the Company manages such liabilities and their performance is assessed based on their fair value in accordance with the Company's documented risk management strategy, providing that the designation is intended to prevent an accounting mismatch, or the liability is a combined instrument including an embedded derivative.

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to occur.

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Company, as specified in the agreement, expires or when it is discharged or cancelled.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**F. Financial instruments (cont'd)****Non-derivative financial liabilities (cont'd)*****Offset of financial instruments***

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments, including hedge accounting

The Company holds both derivative financial instruments to hedge its foreign currency and interest rate risk exposures and derivatives that do not serve hedging purposes.

Hedge accounting

The Company designates certain derivatives as hedging instruments in order to hedge changes in cash flows that relate to highly probable forecasted transactions and which derive from changes in foreign currency exchange rates and changes in the flow and interest on variable-rate loans. The Company continues to apply IAS 39 for the hedge accounting.

At the inception of the hedging relationship the Company documents its risk management objective and its hedging strategy. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and the hedging instrument are expected to offset each other.

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Measurement of derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative instrument is designated as a cash flow hedge, the effective portion of the changes in fair value of the derivative is recognized in other comprehensive income, directly within a hedging reserve. The effective portion of changes in fair value of a derivative, recognized in other comprehensive income, is limited to the cumulative change in fair value of the hedged item (based on present value), from inception of the hedge. The change in fair value in respect of the ineffective portion is recognized immediately in profit or loss.

If the result of a forecasted transaction is recognition of a non-financial asset, the amounts that were accumulated in the hedging reserve and the cost of hedging reserve are included in the initial cost of the non-financial item upon its recognition. For all other hedged forecasted transactions, the amounts accumulated in the hedging reserve and cost of hedging reserve are reclassified to profit or loss in the same period, or periods, in which the hedged forecasted future cash flows affect profit or loss.

Note 2 - Significant Accounting Policies (cont'd)**F. Financial instruments (cont'd)****Derivative financial instruments, including hedge accounting (cont'd)***Cash flow hedges (cont'd)*

If the hedge no longer qualifies as an accounting hedge, or the hedging instrument is sold, expires, is terminated or exercised, hedge accounting is discontinued on a prospective basis. When hedge accounting is discontinued, the amounts accumulated in the past in the hedging reserve and cost of hedging reserve remain in the reserve, until such time as they are included in the initial cost of the non-financial item (for hedged transactions whose result is a non-financial item), or until such time as they are reclassified to profit or loss in the period, or periods, in which the hedged forecasted future cash flows affect profit or loss (for other cash flows hedges).

If the hedged future cash flows are no longer expected to occur, the amounts accumulated in the past in the hedging reserve and cost of hedging reserve are immediately reclassified to profit or loss.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase/decrease in the CPI.

Share capital*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options and warrants are recognized as a deduction from equity.

Treasury shares

When share capital recognized as equity is repurchased by the Company, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus on the transaction is carried to share premium, whereas a deficit on the transaction is deducted from retained earnings.

Note 2 - Significant Accounting Policies (cont'd)**G. Impairment****Non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets ("cash-generating unit"). An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Investments in associates

An investment in an associate is tested for impairment when objective evidence indicates there has been impairment (as described above). Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Company estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associate, the Company estimates its share of the present value of estimated future cash flows that are expected to be generated by the associate, including cash flows from operations of the associate and the consideration from the final disposal of the investment.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and it is recognized in profit or loss under other expenses. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**H. Share-based payment transactions**

The Company's directors are entitled to remuneration in the form of equity-settled share-based payment transactions. The cost of equity-settled transactions with directors is measured at the fair value of the equity instruments at the date on which they are granted. The fair value is determined by using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the instruments were granted, additional details are included in Note 16.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the director become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

I. Employee benefits**1. Short-term employee benefits:**

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions. Short-term employee benefits are measured on an undiscounted basis and are expensed as the related services are rendered or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave). A liability in respect of a cash bonus is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and the obligation can be estimated reliably.

2. Post-employment benefits:

The post-employment plans are usually financed by deposits with insurance companies and classified as a defined contribution plan or as a defined benefit plan.

The Company has defined contribution plans pursuant to Section 14 to the Israeli Severance Pay Law, 5723-1963 (the "Severance Pay Law") with the vast majority of its employees under which the Company pays fixed contributions and has no legal or constructive obligation to pay further amounts.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense in profit or loss in the periods during which related services are rendered by employees and no additional provision is required in the financial statements.

The Company also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Severance Pay Law, employees are entitled to severance pay upon dismissal or retirement.

The Company makes current deposits in respect of severance pay obligations to pay compensation to certain of its employees in its pension funds and insurance companies (the "plan assets"). Plan assets are not available to the Company's own creditors and cannot be returned directly to the Company. The liability for employee benefits is presented in the statements of financial position at present value of the defined benefit obligation less the fair value of the plan assets.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**J. Leases**

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and classification is made at the inception of the lease.

Finance leases: leases where the Company assumes substantially all the risks and rewards incident to ownership of the leased asset are classified as Finance leases. Upon initial recognition the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The lease payments are allocated to each period during the lease term and apportioned between finance expenses and a reduction of the lease obligation. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as Operating leases: the leased assets are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in the statements of comprehensive income (loss) on a straight-line basis over the term of the lease.

Determining whether an arrangement contains a lease

At inception or upon reassessment of an arrangement, the Company determines whether such an arrangement is or contains a lease. An arrangement is a lease or contains a lease if the following two criteria are met:

- The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- The arrangement contains rights to use the asset.

K. Revenue recognition

The Company recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Revenues from the sale of electricity and gas are recognized when the units produced are transferred to the grid at connection points on the basis of a meter reading.

Revenues in respect of units produced and transferred to the grid in the period between the most recent meter reading and the date of the statement of financial position, are included based on an estimate.

Seasonality:

Solar power production has a seasonal cycle due to its dependency on the direct and indirect sunlight and the effect the amount of sunlight has on the output of energy produced. Thus, low radiation levels during the winter months decrease power production.

Service concession arrangements:

Operation or service revenue is recognized in the period in which the services are provided by the Company.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**L. Income tax**

Income tax comprises of current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that the tax arises from items which are recognized directly in equity. In such cases, the tax effect is also recognized in the relevant item in equity.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years. Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for a limited number of exceptions:

- The initial recognition of goodwill,
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- Differences relating to investments in subsidiaries, joint arrangements and associates, to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle deferred tax liabilities and assets on a net basis or their deferred tax assets and liabilities will be realized simultaneously.

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Company will have to use its economic resources to pay the obligation.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**M. Earnings (loss) per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury shares, for the effects of all dilutive potential ordinary shares, which comprise share options granted to directors.

N. Financing income and expenses

Financing income comprises interest income on bank deposits and marketable securities, gains on changes in the fair value of financial assets at fair value through profit or loss, gains on hedging instruments that are recognized in profit or loss and exchange rate differences. Interest income is recognized as it accrues. Changes in the fair value of financial assets at fair value through profit or loss also include income from dividends and interest.

Financing expenses comprise bank charges, interest expenses on borrowings and debentures, changes in the fair value of financial assets at fair value through profit or loss, losses on hedging instruments that are recognized in profit or loss, and exchange rate differences.

Borrowing costs, which are not capitalized to qualifying assets, are recognized in profit or loss using the effective interest method. Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

O. Provisions

A provision is recognized if the Company has a present obligation (legal or constructive) that can be estimated reliably, as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

A provision for legal claims is recognized if the Company has a present legal or constructive obligation as a result of a past event, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

P. Service concession arrangements

As part of service concession arrangements with Government bodies for the construction and operation of a facility in consideration for fixed and variable payments, the Company recognizes a financial asset commencing from the start of the construction of the facility when it has an unconditional right to receive cash or some other financial asset for the construction services. The financial asset reflects the unconditional payments receivable in the future from the Government body and bears an appropriate rate of interest for risk that is determined based on the risk of the customer. The aforementioned financial assets are stated at fair value upon initial recognition and at amortized cost in subsequent periods.

As from January 1, 2018, The Company's right to receive consideration for the construction services, constitutes a contract asset until the end of the construction period.

In projects accounted for using the financial asset model, when at the end of the construction period there is an unconditional right (other than that of the passing of time) to receive consideration for the construction services, the contract asset is classified to receivables (financial asset) according to the carrying amount of the contract asset. When at the end of the construction period the right to receive consideration for the construction services is conditional on other than the passing of time (such as current operation of the facility), the contract asset is not reclassified until the right to receive consideration is unconditional, which for certain projects means classification as a contract asset until actual receipt of the consideration.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)

Q. Initial application of new standards, amendments to standards and interpretations

(1) IFRS 9 (2014), *Financial Instruments*

As from January 1, 2018 the Company applies IFRS 9 (2014), *Financial Instruments* (in this section: “the Standard” or “IFRS 9”), which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (in this section “IAS 39”). Furthermore, as from that date the Company applies the amendment to IFRS 9, *Financial Instruments: Prepayment Features with “Negative Compensation”*. Additionally, following the application of IFRS 9, the Company has adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures*, and to IAS 1, *Presentation of Financial Statements*.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through profit or loss and fair value through other comprehensive income. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For further information on how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 21.

The table hereunder presents the original measurement categories according to IAS 39 and the new measurement categories according to IFRS 9 with respect to the financial assets and financial liabilities of the Company as at January 1, 2018, and the effects of the transition to IFRS 9 on the opening balances of reserves and retained earnings and other components of equity.

	Original classification according to IAS 39	New classification according to IFRS 9	Carrying amount according to IAS 39	Carrying amount according to IFRS 9
			€ thousands	€ thousands
Financial assets				
Loans granted to associates	Loans and receivables	Fair value through profit or loss	11,653	11,902
Reserves and retained earnings				
Retained earnings	-	-	-	341

The implementation of the Standard did not have a material effect on the financial assets and liabilities except what is shown in the table, therefore the balance of retained earnings (accumulated deficit) as of January 1, 2018 was not presented.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**Q. Initial application of new standards, amendments to standards and interpretations (cont'd)****(1) IFRS 9 (2014), *Financial Instruments* (Cont'd)****Classification and measurement of financial assets and financial liabilities (cont'd)**

The Company has loans to associates that essentially form part of the net investment in the associate. These loans do not have definite repayment dates and they will be repaid only after the other debts of the associate are repaid. Such loans are in the scope of the Standard and were classified on the basis of the contractual cash flow characteristics of the financial asset. Therefore, such loans are measured at fair value through profit or loss as their contractual cash flow characteristics do not include solely payments of principal and interest. Interest income on such loans is included as part of the Company's share of profits of equity accounted investee, and exchange rate differences and reevaluation are recorded through financing income (expenses).

Hedge accounting

The Company chose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The Company applies that policy to all of its hedging relationships. See Note 21.

(2) IFRS 15, *Revenue from Contracts with Customers*

As from January 1, 2018, the Company applies International Financial Reporting Standard 15 (hereinafter in this section "the Standard"), which provides guidance on revenue recognition. The Standard establishes two approaches to revenue recognition: at a point in time or over time. The Standard introduces a five-step model for analyzing transactions in order to determine the timing of the recognition and the amount of revenue. In addition, the Standard provides new and broader disclosure requirements than those existing today. The Company elected to apply the Standard using the cumulative effect approach.

The implementation of the Standard did not have a material effect on the financial statements, therefore the balance of retained earnings (accumulated deficit) as of January 1, 2018 was not adjusted.

According to the Standard, the Company recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Contract asset and contract liability

A contract asset is recognized when the Company has a right to consideration for goods or services it transferred to the customer that is conditional on other than the passing of time, such as future performance of the Company. Contract assets are classified as receivables when the rights in their respect become unconditional.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**Q. Initial application of new standards, amendments to standards and interpretations (cont'd)****(2) IFRS 15, Revenue from Contracts with Customers (Cont'd)***Contract asset and contract liability (cont'd)*

A contract liability is recognized when the Company has an obligation to transfer goods or services to the customer for which it received consideration (or the consideration is payable) from the customer.

In the project accounted for using the financial asset model under IFRIC 12, at the end of the construction period the right to receive consideration for the construction services is conditional on other than the passing of time (such as current operation of the facility). Accordingly, the contract asset is not reclassified to receivables (financial asset) until the right to receive consideration is unconditional.

R. Standards issued but not yet effective**(1). IFRS 16, Leases (hereinafter in this section: "IFRS 16" or "the Standard")**

The Standard replaces IAS 17, *Leases* and its related interpretations. The Standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead, for lessees, the Standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements. Nonetheless, IFRS 16 includes two exceptions to the general model whereby a lessee may elect to not apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value.

In addition, IFRS 16 permits the lessee to apply the definition of the term lease according to one of the following two alternatives consistently for all leases: retrospective application for all the lease agreements, which means reassessing the existence of a lease for each separate contract, or alternatively, application of a practical expedient that permits continuing with the assessment made regarding existence of a lease based on the guidance in IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*, with respect to leases entered into before the date of initial application. Furthermore, the Standard determines new and expanded disclosure requirements from those required at present.

IFRS 16 is applicable for annual periods as of January 1, 2019.

IFRS 16 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application consistently for all leases: full retrospective application or recognizing a cumulative effect, which means application (with the possibility of certain practical expedients) as from the mandatory effective date with an adjustment to the balance of retained earnings at that date.

The Company plans to adopt IFRS 16 as from January 1, 2019 using the cumulative effect method, with an adjustment to the balance of retained earnings as at January 1, 2019.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)

R. Standards issued but not yet effective (cont'd)**(1). IFRS 16, Leases (hereinafter in this section: "IFRS 16" or "the Standard") (cont'd)****Method of application and expected effects**Expedients:Expedients available for the Company of essentially similar assets -

Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of short-term leases of up to one year.

Expedients for each separate lease

- (1) Relying on a previous assessment of whether an arrangement contains a lease in accordance with current guidance with respect to agreements that exist at the date of initial application.
- (2) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

Expected effects:

- The Company plans to elect to apply the transitional provision of recognizing a lease liability at the date of initial application, for all the leases that award it control over the use of identified assets for a specified period of time, and except for when the Company has elected to apply the standard's expedients as aforesaid, according to the present value of the future lease payments discounted at the incremental borrowing rate of the lessee at that date, and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of the standard is not expected to have an effect on the balance of retained earnings at the date of initial application. These changes are expected to result in an increase of €4,148 thousand in the balance of right-of-use assets at the date of initial application and an increase of €4,148 thousand in the balance of the lease liability at the date of initial application. Accordingly, depreciation and amortization expenses will be recognized in subsequent periods in respect of the right-of-use asset, and the need for recognizing impairment of the right-of-use asset will be examined in accordance with IAS 36. Furthermore, financing expenses will be recognized in respect of the lease liability.

Therefore, as from the date of initial application and in subsequent periods, depreciation expenses and financing expenses will be recognized instead of lease expenses relating to assets leased under an operating lease, which were presented as part of the general and administrative expenses item in the income statement.

In addition, the nominal discount rates used for measuring the lease liability are in the range of 2.56% to 4.57%. This range is affected by differences in the length of the lease term, differences between the various groups of assets and so forth.

- The Company expects a change in principal financial ratios such as: an increase in the leverage ratio, a decrease in the interest coverage ratio and a decrease in the current ratio. The Company does not expect that its ability to satisfy financial covenants applicable to it will be affected by these changes in financial ratios.

The information mentioned above, constitutes an estimate of the Company based on the existing lease agreements and understanding the requirements of the standard at this stage.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 2 - Significant Accounting Policies (cont'd)**R. Standards issued but not yet effective (cont'd)****(2). IFRIC 23, *Uncertainty Over Income Tax Treatments* (hereinafter – “IFRIC 23”)**

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value.

IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment. IFRIC 23 also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation. In the opinion of the Company, the effects of applying IFRIC 23 on the financial statements will be immaterial.

(3). Amendment to IFRS 3, *Business Combinations*

The Amendment clarifies whether a transaction to acquire an operation is the acquisition of a "business" or an asset. For the purpose of this examination, the Amendment added an optional concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the Amendment narrows the reference to the outputs element required in order to meet the definition of a business and added examples illustrating the aforesaid examination.

The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 3 - Cash and Cash Equivalents

	December 31	
	2018	2017
	€ in thousands	
Cash	35,984	11,729
On Call deposits (*)	898	12,233
	<u>36,882</u>	<u>23,962</u>

(*) The annual interest rate for deposits as of December 31, 2018 is 2.3% (1.5% as of December 31, 2017).

The Company's exposure to credit and currency risks is disclosed in Note 21.

Note 4 - Restricted Cash, Deposits and Marketable Securities

	December 31	
	2018	2017
	€ in thousands	
Marketable securities (1)	2,132	2,162
Short-term restricted cash (2)	4,653	15
Restricted marketable securities (3)	-	3,250
Long-term restricted non-interest bearing bank deposits (4)	408	1,458
Restricted cash, long-term bank deposits (5)	1,654	2,202
Long-term restricted cash and deposits	<u>2,062</u>	<u>3,660</u>

(1) During 2017 and 2018, the Company invested in a traded Corporate Bond (rated Baa3 by Moody's) with a coupon rate of 3.389% and a maturity date of December 30, 2018. During 2017, the Company invested in a traded Corporate Bond (rated Baa3 by Moody's) with a coupon rate of 4.435% and a maturity date of December 30, 2020 and in 5.8% WACHOVIA Fixed Interest Float.

(2) Current accounts and bank deposits securing short term obligations. Bank deposits securing the Company's forward contracts. The annual interest rate as of December 31, 2018 was 0.58%.

(3) Marketable securities securing the Company's Forward contracts.

(4) Deposits used to secure obligations towards the Israeli Electricity Authority for the license for the pumped-storage project in the Manara Cliff in Israel and to secure obligations under loan agreements (see Note 11).

(5) Bank deposits used to secure obligations under loan agreements (see Note 11).

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 5 - Trade and Other Receivables and Assets

	December 31	
	2018	2017
	€ in thousands	
Current Assets - Other receivables:		
Government authorities	2,706	2,306
Income receivable	3,830	3,436
Interest receivable	6	153
Current tax	195	48
Current Maturities of loan to an equity accounted investee	415	3,165
Trade receivable	156	407
Forward contracts (1)	529	580
Loan to others (2)	3,500	-
Prepaid expenses and other	1,286	550
	<u>12,623</u>	<u>10,645</u>
Non-current Assets - Long term receivables:		
Advance tax payment	996	1,078
Forward contracts	-	12
Annual rent deposits	27	30
Other	432	415
	<u>1,455</u>	<u>1,535</u>

- (1) The Company closed euro/USD forward contracts with an accumulated profit of approximately €529 thousand (approximately \$606 thousand) that are expected to be received between January and March 2019 (depending on the relevant dates of the forward positions).
- (2) In November 2018, Talasol Solar S.L.U, which is promoting the construction of a photovoltaic plant with a peak capacity of 300 MW, provided an amount of €3,500 thousand to METKA EGN Limited, the EPC contractor, for the purpose of securing or executing main supply contracts for the execution of the EPC agreement with Metka. This amount will be repaid either out of the first payment to Metka under the EPC agreement or ten days after the deadline to provide a notice to proceed under the EPC agreement in the event such notice is not granted. We received a bank guarantee from Metka for the prepayment amount.

Note 6 - Investee Companies and other investments

A. Equity accounted investees

U. Dori Energy Infrastructures Ltd. ("Dori Energy") –

On November 25, 2010, the Company through its wholly owned subsidiary, Ellomay Clean Energy Ltd. ("Ellomay Energy") entered into an Investment Agreement (the "Dori Investment Agreement") with Dori Group Ltd. ("Dori Group") (currently Amos Luzon Entrepreneurship and Energy Group Ltd. – "Luzon Group"), and Dori Energy, with respect to an investment in Dori Energy. Dori Energy holds 18.75% of the share capital of Dorad Energy Ltd. ("Dorad"), which owns an approximate 850 MWp bi-fuel operated power plant in the vicinity of Ashkelon, Israel (the "Dorad Power Plant").

Concurrently with the execution of the Dori Investment Agreement, Ellomay Energy, Dori Energy and Dori Group have also entered into the Dori Shareholders Agreement ("Dori SHA"). The Dori SHA grants each of Dori Group and Ellomay Energy with equal rights to nominate directors in Dorad, provided that in the event Dori Energy is entitled to nominate only one director in Dorad, such director shall be nominated by Ellomay Energy for so long as Ellomay Energy holds at least 30% of Dori Energy.

On May 12, 2014, Dorad was issued production licenses for 20 years and a supply license for one year and, on May 19, 2014, Dorad began commercial operation of the power plant. In July 2015, Dorad was issued a long term supply license that will expire on May 11, 2034.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–**

In May 2016, the Company exercised an option to acquire additional share capital of Dori Energy. Following the exercise of this option, the Company's holdings in Dori Energy increased from 49% to 50% and the Company's indirect ownership of Dorad increased from 9.1875% to 9.375%. The aggregate amount paid by the Company in connection with the exercise of the second option amounted to approximately NIS 2,800 thousand (approximately €657 thousand), including approximately NIS 400 thousand (approximately €93 thousand) required in order to realign the shareholders loans provided to Dori Energy by its shareholders with the new ownership structure. The Company determined the fair value of the acquired assets and liabilities and allocated the consideration to customers' contracts.

As of December 31, 2018, subordinated shareholder loans granted by the Company to Dori Energy (including amounts extended in connection with the exercise of the first and second options) amount to approximately NIS 39,419 thousand (approximately €9,185 thousand). The shareholder loans are linked to the Israeli CPI and bear an annual interest rate that is 3% higher than the interest Dorad is committed to pay to Dorad's financing consortium during the financial period in respect of the "senior debt" (5.1% as of December 31, 2018 following a decrease of 0.4% that occurred in July 2018 as a result of an increase in Dorad's rating).

During July 2016, in connection with the repayment by Dorad of interest and principal on account of shareholders loans in the aggregate amount of approximately NIS 350,000 thousand (approximately €82,000 thousand), the Company received an amount of approximately NIS 30,000 thousand (approximately €7,030 thousand). During January 2017, in connection with the repayment by Dorad of interest on account of shareholders loans of approximately NIS 50,000 thousand (approximately €12,330 thousand), the Company received an amount of approximately NIS 1,750 thousand (approximately €407 thousand).

During January and November 2018, in connection with the repayment by Dorad of interest and principal on account of shareholders loans in the aggregate amount of approximately NIS 80,000 thousand and NIS 110,000 thousand, respectively (approximately €--19,265 thousand and €26,040 thousand, respectively), the Company received an amount of approximately NIS 6,950 thousand and NIS 10,300 thousand, respectively (approximately €1,670 thousand and €2,440 thousand, respectively). During November 2018, the Company received an additional amount of NIS 2,000 thousand (approximately €466 thousand) as repayment of shareholder loan. The Company recorded current maturities of loan to an equity accounted investee in the amount of approximately NIS 1,780 thousand respectively (approximately €415 thousand).

As of December 31, 2018, Dorad provided, through its shareholders at their proportionate holdings and as required by the financing agreements executed by Dorad, guarantees in favor of the Israeli Electricity Authority, the Israeli Electric Company and the Israel Natural Gas Lines Ltd. Total performance guarantees provided by Dorad amounted to approximately NIS 173,000 thousand (approximately €40,311 thousand). The Company's indirect share of guarantees provided on behalf of Dorad through its shareholders is approximately NIS 16,200 thousand (approximately €3,780 thousand).

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–**

On December 19, 2016, the Israeli Electricity Authority published a summary decision regarding "Electricity Rates for Customers of IEC in 2016" which in accordance the average production component was reduced by approximately 0.5% as from January 1, 2017 and remained in effect to the end of 2017. On January 15, 2018, the electricity rate has been changed. According to the decision the average production component increased by approximately 6% from January 15, 2018 and remained in effect to the end of 2018. On December 24, 2018, the Israeli Electricity Authority published its decision to increase the 2019 electricity rate by approximately 3%, subject to reducing the excise tax on coal.

The investment in Dori Energy is accounted for under the equity method.

Dorad and its shareholders are involved in several legal proceedings as follows:

Petition to Approve a Derivative Claim filed by Dori Energy

On July 16, 2015, Dori Energy and Dori Energy's representative on Dorad's board of directors, Mr. Hemi Raphael, filed a petition (the "Petition"), for approval of a derivative action on behalf of Dorad with the Economic Department of the Tel Aviv-Jaffa District Court. The Petition was filed against Zorlu Enerji Elektrik Uretim A.S, which holds 25% of Dorad ("Zorlu"), Zorlu's current and past representatives on Dorad's board of directors and Wood Group Gas Turbines Services Ltd. ("Wood Group") and several of its affiliates, all together, the Defendants. The petition requested, inter alia, that the court instruct the Defendants to disclose and provide to Dorad documents and information relating to the contractual relationship between Zorlu and Wood Group, which included the transfer of funds from Wood Group to Zorlu in connection with the EPC agreement of the Dorad Power Plant.

On January 12, 2016, Dori Energy filed a motion to amend the Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents, to remove Zorlu's representatives and to add several documents which were obtained by Dori Energy, after the Petition had been filed. At a hearing held on April 20, 2016, the request submitted in January 2016 to amend the Dori Energy Petition to add Ori Edelsburg (a director in Dorad) and affiliated companies as additional respondents was approved.

On December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceedings mentioned below will be arbitrated before Judge (retired) Hila Gerstel. Following the execution of the arbitration agreement, Dori Energy and Mr. Hemi Raphael requested the deletion of the proceeding and the request was approved.

A statement of claim was filed by Dori Energy and Mr. Hemi Raphael on behalf of Dorad against Zorlu, Mr. Edelsburg, Edelcom Ltd. ("Edelcom") and Edeltech Holdings 2006 Ltd. on February 23, 2017 in which they repeated their claims included in the amended Petition and in which they required the arbitrator to obligate the defendants, jointly and severally, to pay an amount of \$183,367,953 plus interest and linkage to Dorad.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–***Petition to Approve a Derivative Claim filed by Dori Energy (cont'd)*

During March 2017, the respondents filed two motions with the arbitrator as follows: (i) to instruct the plaintiffs to resubmit the statement of claim filed in connection with the arbitration proceedings in a form that will be identical to the form of the statement of claim submitted to the court, with the addition of the monetary demand only or, alternatively, to instruct that several sections and exhibits will be deleted from the statement of claim and (ii) to postpone the date for filing their responses by 45 days from the date the motion set forth under (i) is decided upon. The plaintiffs filed their objection to both motions and some of the respondents filed their responses to the objection.

In April 2017, the arbitrator rejected the majority of the defendants' motions that were filed in March 2017. In April 2017, the Defendants filed their statements of defense. Within the said statements of defense, Zorlu attached a third party notice against Dorad, Dori Energy and the Luzon Group, in the framework of which it repeated the claims on which its defense statement was based and claimed, among other claims, that if the plaintiffs' claim against Zorlu was accepted and would negate Zorlu's right receive compensation and profit from its agreement with Dorad and therefore Zorlu should be compensated in the amount of approximately NIS 906.4 million (approximately €218 million). Similarly, also within their statement of defense, Edelcom, Mr. Edelsburg and Edeltech (together, the "Edelsburg Group") filed a third party notice against Dori Energy claiming for breaches by Dori Energy of the duty to act in good faith in contract negotiations and that any amount ruled will constitute unlawful enrichment.

On October 1, 2017, Eilat Ashkelon Infrastructure Services Ltd. ("EAIS"), which holds 37.5% of Dorad's shares, filed a statement of claim in the arbitration proceedings. In its statement of claim, EAIS joins Dori Energy's and Mr. Raphael's request as set forth in the statement of claim filed by them in the arbitration proceeding and raises claims that are similar to the claims raised by Dori Energy and Mr. Raphael. In November 2017, Dori Energy and Mr. Raphael filed their responses to the defendants' statements of defense and in December 2017, Dori Energy, Mr. Raphael and EAIS filed their statements of defense to the third party notices submitted by the defendants.

In December 2017, Zorlu filed a request in connection with the Dori Energy statement of claim to the extent it is directed at board members serving on behalf of Zorlu and in January 2018 the arbitrator provided its ruling that the legal validity of the actions or inactions of board members of Dorad will be attributed to the entities that are shareholders of Dorad on whose behalf the relevant board member acted and the legal determinations, if any, will be directed only towards the shareholders of Dorad.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–***Petition to Approve a Derivative Claim filed by Dori Energy (cont'd)*

During January 2018, Mr. Edelsburg, Edelcom and Zorlu filed their statement of defense in connection with the claim filed by EAIS and also filed third party notices against EAIS, Dori Energy and the Luzon Group claiming that EAIS and the Luzon Group enriched themselves at Dorad's account without providing disclosure to the other shareholders and requesting that, should the position of Dori Energy and EAIS be accepted in the main proceeding, the arbitrator, among other things, obligate EAIS to refund to Doard all of the rent paid to date and determine that Dorad is not required to pay any rent in the future or determine that the rent fees be reduced to their market value and refund Dorad the excess amounts paid by it to EAIS, to determine that the board members that represent EAIS and Dori Energy breached their fiduciary duties towards Dorad and obligate EAIS and Dori Energy to pay the amount of \$140 million (approximately €123 million), plus interest in the amount of \$43 million (approximately €38 million), which is the amount Zorlu received for the sale of its rights under the Dorad EPC agreement, and to rule that in connection with the engineering and construction works performed by the Luzon Group, the Luzon Group and Dori Energy are required to refund to Dorad or compensate the defendants in an amount of \$24 million (approximately €21 million), plus interest and linkage and, alternatively, to determine that Mr. Edelsburg, Edelcom and Zorlu are entitled to indemnification from the third parties for the entire amount they will be required to pay.

In March 2018, Zorlu and Edelcom submitted requests to remove the arbitrator from her position. In April 2018 the other parties to the arbitration filed their responses (objections) to the said requests and responses were also submitted thereafter by Zorlu and Edelcom. In June 2018, the arbitrator rejected the requests for her removal from office.

In July 2018, an arbitration meeting was held, in which the parties agreed to postpone the dates set for the arbitration process, and among other things, the dates for evidentiary hearings were set for March and April 2019. In addition, in July 2018, Edelcom and Zorlu submitted opening motions to the Tel Aviv District Court for the removal of the arbitrator from her position. In October 2018 a hearing was held in the Tel Aviv District Court and the court ruled to reject the opening motions and ordered that the parties should resume the arbitration proceedings. The parties are in the process of appointing a new arbitrator.

In November 2018, Edelcom and Zorlu submitted requests to the Israeli Supreme Court for permission to file an appeal on the Tel Aviv District Court's ruling. The requests in connection with the removal of the arbitrator from her position also relate to the other proceedings held before the arbitrator as set forth below. In November 2018, Zorlu submitted an agreed-upon request for approval of a procedural arrangement in connection with meeting dates and discovery process.

In January 2019, Dori Energy, EAIS and Dori Energy's representative on the Dorad board of directors filed their response to the request for permission to file an appeal submitted by Edelcom and Zorlu to the Israeli Supreme Court. On January 30, 2019, the arbitrator ruled to cancel the evidentiary hearings scheduled for March and April 2019 and determined that the parties are to immediately schedule new hearing dates.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–***Petition to Approve a Derivative Claim filed by Dori Energy (cont'd)*

Following requests submitted by Zorlu and the Edelsburg Group in connection with discovery on behalf of Dori Energy and EAIS, on January 23, 2019 the parties filed a notice of an agreed-upon process in the matter pursuant to which Dori Energy and EAIS will submit updated discovery on January 24, 2019.

In February 2019, the Edelsburg Group submitted a request to delete sections of EAIS' response and EAIS and Dori Energy submitted a request to remove redactions from discovery. On February 12, 2019, the Israeli Supreme Court ruled by a majority ruling that the appeal submitted should be accepted by removing the arbitrator from her position and determined that the respondents in the proceedings will pay expenses to Zorlu in the amount of NIS 10,000 (approximately €2,430). In accordance with the arbitration agreement, in the event the arbitrator cannot fulfil her position, the parties are to appoint a replacement arbitrator within 14 days or otherwise request that a court appoint an arbitrator.

The said motions to remove of the arbitrator from her position also relate to the additional proceedings further described below held in front of the same arbitrator.

With respect to the said third party notices, the Company estimates (after consulting with legal counsel) that if the main (Derivative) claim is dismissed then the third party notices will be redundant, whereas if the main claim is accepted, it is more likely than not that the third party notices shall be rejected, as they are based on arguments similar to those raised by the defendants in their statements against of defense filed against the main claim. The Company estimates (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding.

Petition to Approve a Derivative Claim filed by Edelcom

On July 25, 2016, Edelcom Ltd., which holds 18.75% of Dorad ("Edelcom"), filed a petition for approval of a derivative action on behalf of Dorad (the "Edelcom Petition") against Ellomay Energy, Luzon Group, Dori Energy and Dorad following a letter delivered to Dorad on February 25, 2016. The Edelcom Petition refers to an entrepreneurship agreement that was signed on November 25, 2010 between Dorad and the Luzon Group, pursuant to which the Luzon Group received payment in the amount of approximately NIS 49.4 million (approximately €11.9 million) in consideration for management and entrepreneurship services. Pursuant to this agreement, the Dori Group undertook to continue holding, directly or indirectly, at least 10% of Dorad's share capital for a period of 12 months from the date the Dorad Power Plant is handed over to Dorad by the construction contractor. The Edelcom Petition claims that as a consequence of the management rights and the options to acquire additional shares of Dori Energy granted to the Company pursuant to the Dori Investment Agreement, the holdings of the Dori Group in Dorad have fallen below 10% upon execution of the Dori Investment Agreement. The Edelcom Petition therefore claims that Dori Group breached its commitment according to entrepreneurship agreement and requests that a derivative action be approved to recover an amount of NIS 49.4 million, plus linkage and interest from the defendants.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–***Petition to Approve a Derivative Claim filed by Edelcom (cont'd)*

The Company estimates (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding. As noted above, on December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the proceeding mentioned above and below will be arbitrated before Judge (retired) Hila Gerstel and the proceeding before the court was deleted. On February 23, 2017, Edelcom submitted the petition to approve the derivative claim to the arbitrator. For more information see above.

Statement of Claim filed by Edelcom

In July 2016, Edelcom filed a statement of claim (the "Edelcom Claim"), with the Tel Aviv District Court against Dori Energy, Ellomay Energy, the Luzon Group, Dorad and the other shareholders of Dorad. In the Edelcom Claim, Edelcom contends that a certain section of the shareholders agreement among Dorad's shareholders ("the Dorad SHA"), contains several mistakes and does not correctly reflect the agreement of the parties. Edelcom claims that these purported mistakes were used in bad faith by the Luzon Group, Ellomay Energy and Dori Energy during 2010 in connection with the issuance of Dori Energy's shares to Ellomay Energy and that, in effect, such issuance was allegedly in breach of the restriction placed on Dorad's shares and the right of first refusal granted to Dorad's shareholders in the Dorad SHA. The Edelcom Claim requests the court to: (i) issue an order compelling the Luzon Group, Ellomay and Dori Energy to act in accordance with the right of first refusal mechanism included in the Dorad SHA and to offer to the other shareholders of Dorad, including Edelcom, a right of first refusal in connection with 50% of Dori Energy's shares (which are currently held by Ellomay Energy, a wholly-owned subsidiary of the Company), under the same terms agreed upon by the Luzon Group, Ellomay Energy and Dori Energy in 2010, (ii) issue an order instructing Dorad to delay all payment due to Dori Energy as a shareholder of Dorad, including dividends or repayment of shareholders' loans, for a period as set forth in the Edelcom Claim, (iii) issue an order instructing Dorad to remove Dori Energy's representative from Dorad's board of directors (currently Mr. Hemi Raphael, who also serves on the Company's Board) and to prohibit his presence and voting at the Dorad board of directors' meetings, for a period as set forth in the Edelcom Claim, and (iv) grant any other orders as the court may deem appropriate under the circumstances.

As noted above, on December 27, 2016, an arbitration agreement was executed pursuant to which this proceeding, as well as the two proceeding mentioned above, will be arbitrated before Judge (retired) Hila Gerstel and the proceeding before the court was deleted.

On February 23, 2017, Edelcom submitted the statement of claim to the arbitrator. For more information see above. The Company estimates (after consulting with legal counsel), that at this early stage it is not yet possible to assess the outcome of the proceeding.

Note 6 - Investee Companies and other investments (cont'd)**A. Equity accounted investees (cont'd)****U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)–***Opening Motion filed by Edelcom*

On December 8, 2016, Edelcom filed an opening motion with the Economic Department of the Tel Aviv-Yaffo District Court against the Luzon Group, Dori Energy and Dorad ("the Opening Motion"). The Opening Motion was filed shortly after the publication in Israel of a prospectus by the Luzon Group for the issuance of debentures to the Israeli public, proposed to be secured, among other securities, by a pledge on Dori Energy's shares that are held by the Luzon Group (representing a 50% ownership percentage in Dori Energy, with us, indirectly, holding the remaining 50%). In the Opening Motion, Edelcom requests the court to declare that: (a) the creation of a lien on Dori Energy's shares held by the Luzon Group triggers the right of first refusal mechanism included in the Dorad SHA, (b) that the Luzon Group and/or Dori Energy are obligated to act in accordance with such right of first refusal and enable the shareholders of Dorad to acquire all of Luzon Group's holdings in Dori Energy or, indirectly, in Dorad, for a consideration of NIS 70 million less the value of other securities provided to the debenture holders or, alternatively, for an amount to be determined by an economic expert appointed by the court, and (c) to determine that Edelcom's notice of exercise of its right of first refusal, obligates the Luzon Group and/or Dori Energy.

During January 2017, Edelcom filed a request to amend the Opening Motion to request the court to also examine the issuance of shares of Dori Energy to Ellomay Energy in 2010 as, based on Edelcom's position, the pledging of Dori Energy's shares by the Luzon Group finalized the disposition of all of the Luzon Group's shares in Dori Energy to third parties and therefore Edelcom claims that the right of first refusal included in the Dorad SHA is available to Edelcom. During January 2017 the Luzon Group filed its response to the Opening Motion and a request to schedule an urgent hearing. Thereafter, the Luzon Group filed its objection to Edelcom's request to amend the Opening Motion claiming that Edelcom did not disclose the relevant sections of the Dorad SHA and the request to amend the Opening Motion does not comply with the applicable law regarding amending court claims. During January 2017, after the Luzon Group amended its prospectus to reflect the issuance of unsecured debentures, Edelcom filed a motion to stop the Opening Motion as Edelcom claimed it was no longer relevant. The Luzon Group requested the court to either rule that Edelcom's request to stop the Opening Motion permits the creation of the lien on the Luzon Group's shares of Dori Energy or, to the extent Edelcom has not changed its claims, the request to stop the Opening Motion should be rejected and the case ruled on by the court as soon as possible in order to enable the Luzon Group to provide a pledge on its shares of Dori Energy to its debenture holders.

In February 2017, Edelcom filed its response to the Luzon Group's request noting that the Luzon Group's position is not possible as the Luzon Group undertook not to pledge Dori Energy shares until the Opening Motion is decided on and on the other hand the Luzon Group claims that there is still an undertaking to provide the pledge. The trustee of the debentures issued by the Luzon Group notified the court that it does not have a position in the matter. During March 2017 a hearing was held and it was decided that the Luzon Group will file during March 2017 an opening motion on its behalf and such opening motion was filed by the Luzon Group. A hearing was scheduled for May 2017. Based on its review of the Opening Motion and related documents, the Company estimates that the chances of the court dismissing the Opening Motion filed by Edelcom are higher than the chances of the court granting the relief requested in such Opening Motion.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)

A. Equity accounted investees (cont'd)

U. Dori Energy Infrastructures Ltd. ("Dori Energy") (cont'd)-

Opening Motion filed by Edelcom (cont'd)

On January 5, 2017, Ellomay Energy LP filed a request to join the proceeding as the outcome of the Opening Motion may materially affect its rights. The court approved Ellomay Energy LP's request. In March 2017, the Luzon Group filed an opening motion on its behalf requesting that the court rule on the issues raised in the Opening Motion. On August 31, 2017, the court ruled that a pledge on Dori Energy's shares held by the Luzon Group as contemplated by the Luzon Group in its prospectus governing the debentures issued by the Luzon Group does not trigger a right of first refusal to any of Dorad's shareholders. The Court further determined that Edelcom will pay legal expenses to the Luzon Group and the other parties to the proceeding. The Luzon Group noted in its filing with the Israel Securities Authority that subject to the ruling becoming final and the passing of the appeal period on this ruling, its conditional undertaking to provide a pledge on its Dori Energy shares will become effective. On October 26, 2017, Edelcom filed an appeal with respect to the ruling of the Israeli District Court with the Israeli Supreme Court.

In February 2018, following the filing by the various parties of their claims and responses, a hearing was held in the Israeli Supreme Court and Edelcom withdrew the appeal and it was dismissed. In February 2018, a pledge was registered on the Luzon Group's rights in, and shares of, Dori Energy for the benefit of the Luzon Group's series H debentures.

Composition of the investments

	December 31	
	2018	2017
	€ in thousands	
Investment in shares	19,641	18,515
Long-term loans	8,774	9,860
Deferred interest	(669)	(720)
	<u>27,746</u>	<u>27,655</u>
Current Maturities of the long-term loans	415	3,165
	<u>28,161</u>	<u>30,820</u>

Changes in investments

	2018	2017
	€ in thousands	
Changes in equity and loans:		
Balance as at January 1	30,820	30,509
Repayment of long term loans	(4,576)	(407)
Interest on long term loans	1,079	1,104
Deferred interest	52	54
Elimination of interest on loan from related party	(1,130)	(1,158)
The Company's share of income	2,545	1,531
Foreign currency translation adjustments	(629)	(813)
Balance as at December 31	<u>28,161</u>	<u>30,820</u>

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)

A. Equity accounted investees (cont'd)

Summary financial data for investees, not adjusted for the percentage ownership held by the Company

(a) Summary information on financial position

	Rate of ownership %	Current Assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Equity attributable to the owners of the Company	Company's share	Surplus Costs and goodwill	Other Adjustments	Carrying Amount of investment
		€ in thousands										
2018												
Dori Energy	50	1,154	49,629	50,783	(204)	(18,005)	(18,209)	32,574	16,287	3,376	(22)	19,641
2017												
Dori Energy	50	8,013	47,959	55,972	(51)	(26,006)	(26,057)	29,915	14,958	3,925	(367)	18,515

(b) Summary information on operating results

	Rate of ownership as of December %	Income for the year	Company's share	Elimination of interest on loan from related party	Other Adjustments	Company's share of income of investee
		€ in thousands				
2018						
Dori Energy	50	3,668	1,834	1,130	(419)	2,545
2017						
Dori Energy	50	1,751	876	1,158	(503)	1,531

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**B. Pumped Storage Projects****Loan to PSP Gilboa and Related Receivables**

On July 17, 2013, the Company entered into a loan agreement with A.R.Z. Electricity Ltd. ("A.R.Z. Electricity") that owns, among its other holdings, 24% of the pumped storage project in the Gilboa, Israel ("PSP Gilboa") pursuant to which an amount of approximately NIS 770 thousand (€164 thousand) was loaned to A.R.Z. Electricity. In November 2013 in connection with the sale of A.R.Z. Electricity's holdings in PSP to third parties, the Company and A.R.Z. Electricity reached an agreement according to which the Company is entitled to the repayment of the amount loaned including accrued interest and linkage, amounting to approximately NIS 1,000 thousand (€200 thousand) and may be entitled to additional compensation in the aggregate amount of NIS 6,700 thousand (approximately €1,400 thousand), which will be linked to the Israeli CPI and will be paid in 2 installments of approximately NIS 1,200 thousand (approximately €250 thousand) upon financial closing of PSP Gilboa and NIS 5,500 thousand (approximately €1,160 thousand) upon receipt of permanent licenses for generation of power and the approval of the technical advisor appointed by the financial institutions who have financed PSP Gilboa to the transfer from set up phase to operational phase. The Company received the first installment of approximately NIS 1,200 thousand (approximately €260 thousand) in July 2014 and believes it will also be entitled to receive the second installment. As at December 31, 2018, the Company estimated the fair value of the second installment to be paid at approximately NIS 5,500 thousand (approximately €1,282 thousand) using a discounted cash flow model. The revaluation of such financial asset has been recognized as Other Income in consolidated statements of profit and loss.

Pumped-storage project in the Manara Cliff in Israel ("Manara PSP")-

On November 3, 2014, Ellomay Manara (2014) Ltd., the Company's indirectly wholly-owned subsidiary ("Ellomay Manara"), consummated the acquisition of 75% of the rights in Agira Sheva Electra, L.P. (the "Partnership"), as well as 75% of the holdings in Chashgal Elyon Ltd., which is the general partner in the Partnership (the "GP"), from Electra Ltd. ("Electra"), Ortam Sahar Engineering Ltd. and the Galilee Development Cooperative Ltd., an Israeli cooperative ("Ortam"). The remaining 25% of the holdings in the Partnership and in the GP are held by Sheva Mizrakot Ltd., an Israeli private company ("Sheva Mizrakot"). The Company and Ellomay Manara did not pay any consideration upon the acquisition, and undertook to pay certain consideration upon the fulfillment of certain conditions precedent. On the same date, Ellomay Manara acquired Ortam's holdings (50%) in the engineering, procurement and construction contractor of the aforementioned project (the "EPC") and immediately transferred such holdings to a subsidiary of Electra, which, following such transfer, now holds 100% of the EPC. According to the various agreements executed in connection with the Manara PSP, the Company and Ellomay Manara are jointly and severally liable to all the monetary obligations under these agreements.

As of December 31, 2018, the Company paid an amount of approximately NIS 3,400 thousand (approximately €798 thousand) on account of the consideration upon the acquisition and may be required, if certain conditions and milestones are met (which conditions and milestones have not currently been met), to pay certain parties additional amounts, which in the aggregate are not expected to exceed an amount of NIS 39,800 thousands (approximately €9,300 thousand).

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**B. Pumped Storage Projects (cont'd)**

In August 2016, Ellomay Pumped Storage (2014) Ltd. ("Ellomay PS"), the Company's 75% owned subsidiary, received a conditional license for the Manara PSP (the "Conditional License") from the Israeli Minister of Energy (the "Minister"). The Conditional License initially regulated the construction of a pumped storage plant in the Manara Cliff with a capacity of 340 MW. The Conditional License includes several conditions precedent to the entitlement of the holder of the Conditional License to receive an electricity production license. The Conditional License is valid for a period of seventy two (72) months commencing from the date of its approval by the Minister, subject to compliance by Ellomay PS with the milestones set forth therein and subject to the other provisions set forth therein (including a financial closing, the provision of guarantees and the construction of the pumped storage hydro power plant).

In September 2016, Ellomay PS filed a petition (the "First Petition"), with the Israeli High Court of Justice against the Minister, the Israeli Electricity Authority and Kochav Pumped Storage Ltd. ("Kochav PS"), the owner of the Kochav Hayarden pumped storage project ("Kochav Hayarden Pumped Storage Project"). The First Petition was filed in connection with the decision of the Israeli Electricity Authority, which was approved by the Minister, to extend the financial closing milestone deadline of the Kochav Hayarden Project, which received a conditional license for a pumped storage plant with a capacity of approximately 340 MW in 2014.

Among its claims, Ellomay PS claimed that as the quota for pumped storage projects in Israel is 800 MW, and there is one 300 MW project that has been allocated a portion of such quota, the extension approved by the Israeli Electricity Authority could irreparably harm Ellomay PS's chances of securing a portion of the quota. In January 2017, the Israeli High Court of Justice dismissed the Petition.

On March 3, 2017, Ellomay PS filed another petition, or the Second Petition, with the Israeli High Court of Justice against the Minister, the Electricity Authority and Kochav PS. Ellomay PS has also filed concurrently with the Second Petition, a motion for an interim relief, which would prevent the Minister and the Israeli Electricity Authority from granting Kochav PS any approval in connection with its compliance with any milestones stipulated in its conditional license. The Second Petition was filed in connection with the decision of the Israeli Electricity Authority, dated February 20, 2017, to extend the following milestones deadlines stipulated in Kochav PS's conditional license: (i) financial closing milestone deadline; and (ii) construction period for Kochav PS's project. The Minister and the Israeli Electricity Authority claimed, amongst other claims, that the motion should be dismissed, as should the Second Petition. In May 2017, the Israeli High Court of Justice dismissed the Second Petition.

In June 2017, the court accepted a motion filed by Kochav PS requesting that the court maintain the NIS 2 million guarantee that was provided by Ellomay PS, due to costs and alleged damages incurred by Kochav PS, and costs incurred by the governmental authorities, and ruled that the guarantee will be maintained by the Court for a period of three months pending a filing of a claim for damages by Kochav Hayarden. According to the ruling, in case a claim will not be filed by Kochav PS within the said three months, the guarantee will be returned to Ellomay PS.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)

B. Pumped Storage Projects (cont'd)

On December 27, 2017, Kochav PS filed a statement of claim against Ellomay PS with the Tel Aviv – Jaffa Magistrate Court claiming damages allegedly caused due to delays in connection with the Second Petition. Kochav PS claims damages in an aggregate amount of approximately NIS 4.2 million (approximately €1.02 million). Kochav Hayarden claims damages in an aggregate amount of approximately NIS 4,238 thousand (approximately €1,020 thousand). On March 18, 2018 the Court ordered Kochav PS to submit a Letter of Commitment. In April 2018 Ellomay PS submitted a statement of defense and in August 2018 Kochav PS submitted a plea. In addition, the parties reached an arrangement whereby the NIS 2 million guarantee will be returned to Ellomay PS and the shareholders of Ellomay PS provided a commitment to pay Kochav PS any amount ordered by the Court to be paid by Ellomay PS up to an amount of NIS 1,900 thousand (approximately €443 thousand). Since the claim is in its early stages, at this point it is not possible to assess its chances.

On December 4, 2017, the Israeli Electricity Authority announced the reduction of the capacity stipulated in the Conditional License issued to Ellomay PS from 340 MW to 156 MW. The reduced capacity is based on the remaining capacity in the quota determined by the Israeli Electricity Authority after deducting the capacity already allocated to two projects that are in more advanced stages than the Manara PSP. The Israeli Electricity Authority also announced the extension by an aggregate period of six months of the deadline for producing a connection survey in both conditional licenses. In its decision, the Israeli Electricity Authority noted that in the event one of the holders of the conditional licenses reaches financial closing, the Israeli Electricity Authority will commence the process of revoking the other conditional licenses for projects that have not yet reached financial closing.

The Company expects to continue promoting the Manara PSP but may, for various reasons including changes in the applicable regulation and adverse economic conditions, resolve not to continue the advancement of the Manara PSP without further liability to the other parties under the aforementioned agreements.

Composition of Advances on account of investments

	December 31	
	2018	2017
	€ in thousands	
On account of the Manara PSP	798	825
On account of the Talasol Project	-	8,000
	798	8,825

Composition of short-term and long-term financial assets

	December 31	
	2018	2017
	€ in thousands	
Income receivable in connection with the A.R.Z. Electricity PSP	1,282	1,249
	1,282	1,249

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)

C. Subsidiaries

1. Waste-to-energy ("WtE") Projects in the Netherlands

In July 2016, the Company, through its wholly-owned subsidiary Ellomay Luxemburg Holdings S.à.r.l. ("Ellomay Luxemburg"), entered into a strategic agreement ("the Ludan Agreement"), with Ludan Energy Overseas B.V. (an indirectly wholly-owned subsidiary of Ludan Engineering Co. Ltd. (TASE: LUDN)) ("Ludan") in connection with WtE (specifically Gasification and Bio-Gas (anaerobic digestion)) projects in the Netherlands. Pursuant to the Ludan Agreement, subject to the fulfillment of certain conditions (including the financial closing of each project and receipt of a valid Sustainable Energy Production Incentive subsidy from the Dutch authorities and applicable licenses), the Company, through Ellomay Luxemburg, will acquire at least 51% of each project company and Ludan will own the remaining 49% (each project that meets the conditions under the Ludan Agreement is referred to as an "Approved Project").

In the event additional entities will invest in an Approved Project, their holdings will not dilute Ellomay Luxembourg's 51% share without the Company's prior approval, and in any case, Ellomay Luxembourg and Ludan will maintain the majority stake in each of the project companies. See Note 23.

Groen Goor Anaerobic Digestion Project- Pursuant to the Ludan Agreement, the Company, through Ellomay Luxemburg, entered in July 2016 - November 2016 into loan agreements with Ludan whereby the Company provided loans in the aggregate amount (including accrued interest) of approximately €2,115 thousand, as of December 31, 2018, to Ludan ("the Ludan Loans"), for purposes of the acquisition of the rights in Groen Gas Goor B.V. ("Groen Goor"), a project company developing an anaerobic digestion plant, with a green gas production capacity of approximately 375 Nm³/h, in Goor, the Netherlands ("the Goor Project") and the land on which the Goor Project will be constructed.

Ellomay Luxemburg was issued shares representing a 51% interest in Groen Goor. The Ludan Loans converted into shareholder's loans on December 20, 2016, upon the financial closing of the Goor Project. During September 2016, the Company, through Ellomay Luxemburg, entered into two separate memorandums of understanding ("MOUs"), with Ludan, setting forth Ludan's and the Company agreed material principles and understandings with respect to the Goor Project's EPC and O&M agreements. Pursuant to such MOUs, in November 2016 Groen Goor entered into an EPC agreement with Ludan.

The Groen Goor facility commenced operations on November 2017.

Groen Gas Oude-Tonge Anaerobic Digestion Project- The Company, through Ellomay Luxemburg, entered in April 2017 - June 2017 into loan agreements with Groen Gas Oude-Tonge B.V. ("Groen Gas Oude-Tonge") whereby the Company provided shareholder loans to Groen Gas Oude Tonge in the aggregate amount (including accrued interest) of approximately €1,836 thousand, as of December 31, 2018, for purposes of developing an anaerobic digestion plant, with a green gas production capacity of approximately 475 Nm³/h, in Oude-Tonge, the Netherlands ("the Oude-Tonge Project") and the acquisition of the land on which the Oude-Tonge Project will be constructed. Ellomay Luxemburg was issued shares representing a 51% interest in Groen Gas Oude Tonge.

During April 2017, Oude-Tonge, entered into an EPC agreement with Ludan.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)

C. Subsidiaries – (cont'd)

1. Waste-to-energy (“WtE”) Projects in the Netherlands

Groen Gas Oude-Tonge Anaerobic Digestion Project- (cont'd) In April 2018, Oude-Tonge drew the second facility in the amount of €1,700 thousand provided under the financing agreement with Coöperatieve Rabobank U.A.

The second facility has two tranches: (i) one with principal amounts of €1,540 thousand with a fixed annual interest rate of 2.9% for the first five years, for a period of 12.25 years and (ii) one with principal amounts of €160 thousand with a fixed annual interest rate of 3.4% for the first five years, for a period of 12.25 years, repayable in equal monthly installments commencing three months following the connection of the Project to the grid that occurred in June 2018.

The Oude-Tonge facility commenced operations in June 2018.

2. New project in Spain

In April 2017, the Company, through one of its subsidiaries, entered into a share purchase agreement (the “SPA”), pursuant to which it purchased the entire share capital of a Spanish company, Talasol Solar S.L.U (“Talasol”), which is promoting the construction of a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain (the “Project”). The SPA provides that the purchase price for Talasol's shares is €10 million, to be paid following the occurrence of customary conditions subsequent. An amount of €8 million out of such purchase price was deposited in escrow during May 2017. In October 2018, Ellomay Luxemburg paid €1 million as a down-payment based on an understanding reached with the sellers of the Talasol shares and in January 2019, following the fulfilment or waiver of the conditions subsequent, an additional amount of €7 million was paid to the sellers, thus releasing the €8 million escrow deposited in May 2017 back to Ellomay Luxemburg. The remaining amount of €2 million was deposited in January 2019 in a trust account held in escrow to the sellers of the Talasol shares upon the earliest of three years following the execution of the SPA or the issuance of the commissioning certificate of the Talasol Project.

In June 2018, the Company's Spanish subsidiary, Talasol, entered into an engineering, procurement & construction agreement (the "EPC Agreement") with METKA EGN Limited ("METKA EGN").

The EPC Agreement provides a fixed and lump-sum amount of €192.5 million for the complete execution and performance of the works defined in the EPC Agreement. The works include the engineering, procurement and construction of the Talasol Project and the ancillary facilities for injecting power into the grid, including a 400 kV step-up substation, the high voltage interconnection line to the point of connection to the grid and performance of two years of O&M services. METKA EGN is expected to complete the works under the EPC Agreement within a period of 16 months from the commencement date. The EPC Agreement further provides that in the event the Talasol Project does not reach financial closing within 14 months, both parties can terminate the EPC Agreement. The EPC Agreement includes additional standard provisions, including with respect to liquidated damages in connection with delays and performance, performance guarantees, suspension and termination.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**C. Subsidiaries - (cont'd)****2. New project in Spain (cont'd)**

In June 2018, Talasol executed a financial power swap in respect of approximately 80% of the output of the Talasol Project for a period of 10 years (the "PPA"). The power produced by the Talasol Project is expected to be sold by Talasol in the open market for the then current market power price and the PPA is expected to hedge the risks associated with fluctuating electricity market prices by allowing Talasol to secure a certain level of income for the power production included under the PPA. The hedge transaction becomes effective on Talasol requesting that the counter party will fix the fixed price pursuant to the price adjustment mechanism. Talasol has the right to do this at any time following the execution of the PPA and no later than March 31, 2019.

In July 2018, Talasol executed a pre-hedge transaction with Goldman Sachs International in connection with the prospective project financing for the construction of a photovoltaic plant. The pre-hedge transaction is a fixed for floating interest rate swap intended to lock-in current market floating rates. The hedge transaction is contingent up on the financial closing of the Talasol Project.

In December 2018, Talasol entered into a set of agreements governing the procurement of financing in the aggregate amount of approximately €177 million (the "Project Finance"). The Project Finance consists of several facilities from Deutsche Bank AG and from the European Investment Bank ("EIB") under the Investment Plan for Europe known as the Juncker Plan. The consummation of the Project Finance is subject to the occurrence of certain events and circumstances, including the fulfilment of the conditions to closing, that are not entirely within the control of the Company or Talasol. There can be no assurance as to whether or when the conditions to closing will be satisfied.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)

D. Subsidiaries – Israeli Service Concession project

In June 2017, the Company executed an agreement (the “Talmei Yosef Agreement”) to acquire 100% of the equity of an Israeli company (“Talmei Yosef”) that owns (through its subsidiaries) a photovoltaic site with fixed technology and a nominal capacity of approximately 9 MWp in Talmei Yosef, Israel (the “Talmei Yosef Project”) from Solegreen Ltd. (TASE: SLGN). The Talmei Yosef Agreement provides that the Company will acquire 100% of the equity of the Israeli company, subject to certain conditions precedent, in consideration for an aggregate amount of NIS 39,000 thousand (approximately €9,476 thousand), subject to certain adjustments, after which the aggregate consideration amounted to approximately NIS 48,625 thousand (approximately €11,815 thousand). The Talmei Yosef Project is primarily financed by an Israeli consortium led by Israel Discount Bank. Such conditions precedent were met on October 18, 2017.

The Company performed an analysis of the fair value of identifiable assets acquired and liabilities assumed by applying a discounted cash-flow method.

Identifiable assets acquired and liabilities assumed (based on amounts as described hereunder):

	Acquisition date
	€ in thousands
Asset from concessions project	28,927
Intangible asset	5,505
Restricted cash	1,795
Long-term loan	(21,370)
Working Capital, net (excluding cash and cash equivalents)	(119)
Deferred tax	(4,887)
Total net identifiable assets	<u>9,851</u>

The aggregate cash flows derived for the Company as a result of the acquisition:

	€ in thousands
Cash and cash equivalents paid	11,815
Less - cash and cash equivalents of the subsidiary	(1,964)
	<u>9,851</u>

(*)The fair value of the income receivable in connection with concession project was calculated according to the cash flows expected to be received from the Israeli Electricity Authority for a period of 16 years, discounted at a weighted interest rate of 5.9% reflecting the credit risk of the debtor.

Talmei Yosef entered into a service concession agreement with the Israeli Electricity Authority (“IEC”) for the construction of a PV plant in Talmei Yosef. The construction of the PV plant was completed and the PV plant was connected to the grid in November 2013. Under the terms of the agreement with the IEC, Talmei Yosef will operate the PV plant for a period of 20 years as from November 15, 2013. The IEC provides the Company a guaranteed tariff for the electricity produced of NIS 0.9631 per KWp linked to the CPI as of October 2011. The service concession agreement does not contain a renewal option.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 6 - Investee Companies and other investments (cont'd)**E. Subsidiaries – Regulatory updates****Spain**

On October, 5, 2018, the Spanish Royal Decree Law 15/2018 (“RDL 15/2018”) of urgent measures for energy transition and consumer protection was adopted. RDL 15/2018 includes, among others, the following:

1. It introduces three principles in the activity of self-consumption: (i) the right to self-consume electricity without charges; (ii) the right to shared self-consumption by one or more consumers to take advantage of economies of scale; and (iii) administrative and technical simplification.
2. Any consumer – whether or not a direct consumer of the market – may acquire energy through bilateral contracting with a producer.
3. Regarding access and connection permits: (i) the validity of the access and connection permissions granted prior to the entry into force of Law 24/2013 is extended and the aforementioned permits will expire if they have not obtained the authorization of exploitation, on the later of: (a) before March 31, 2020, or (b) five years from the obtaining of the right of access and connection; (ii) the guarantees to be placed for the access and connection permits are increased from €10/kW to €40/kW; (iii) with regards to the actions carried out in the transport or distribution networks by the owners of the access and connection permits which must be developed by the grid operator or distributor, the promoter must advance 10% of the total investment value to be undertaken within a period not exceeding 12 months. Once the aforementioned amount has been paid and the administrative authorization for the generation facility has been obtained, its holder shall, within four months, enter into an Assignment Contract with the transportation grid operator or distributor, otherwise, the validity of the access and connection permits will expire.
4. RDL 15/2018 suspends for 6 months (the last 3 months of 2018 and the 3 first months of 2019) the tax on the value of electricity production.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 7 - Fixed assets

	Photovoltaic Plants	Biogas installations	Office furniture and equipment	Leasehold Improvements	Total
	€ in thousands				
Cost					
Balance as at January 1, 2017	87,921	5,081	117	52	93,171
Additions	1	10,076	4	-	10,081
Balance as at December 31, 2017	<u>87,922</u>	<u>15,157</u>	<u>121</u>	<u>52</u>	<u>103,252</u>
Balance as at January 1, 2018	87,922	15,157	121	52	103,252
Additions	*10,367	3,499	17	-	13,883
Balance as at December 31, 2018	<u>98,289</u>	<u>18,656</u>	<u>138</u>	<u>52</u>	<u>117,135</u>
Depreciation					
Balance as at January 1, 2017	19,758	-	87	52	19,897
Depreciation for the year	4,396	111	11	-	4,518
Balance as at December 31, 2017	<u>24,154</u>	<u>111</u>	<u>98</u>	<u>52</u>	<u>24,415</u>
Balance as at January 1, 2018	24,154	111	98	52	24,415
Depreciation for the year	4,396	1,081	23	-	5,500
Balance as at December 31, 2018	<u>28,550</u>	<u>1,192</u>	<u>121</u>	<u>52</u>	<u>29,915</u>
Carrying amounts					
As at January 1, 2017	<u>68,163</u>	<u>5,081</u>	<u>30</u>	<u>-</u>	<u>73,274</u>
As at December 31, 2017	<u>63,768</u>	<u>15,046</u>	<u>23</u>	<u>-</u>	<u>78,837</u>
As at December 31, 2018	<u>69,739</u>	<u>17,464</u>	<u>17</u>	<u>-</u>	<u>87,220</u>

*See note 6C

Investment in Photovoltaic Plants

Since March 4, 2010, the Company acquired seventeen photovoltaic plants located in Italy, Spain and Israel (see Note 6D). In addition, the Company's subsidiary, Talasol, is promoting the Talasol Project (see Note 6C 2).

In connection with the Company's PV Plants and the Talasol Project, the Company recorded as of December 31, 2018, fixed assets at an aggregate value of approximately €98,289 thousand, in accordance with actual costs incurred. Depreciation with respect to the PV Plants in Italy is calculated using the straight-line method over 20 years commencing from the connection to the national grid that represent the estimated useful lives of the assets. Depreciation with respect to the PV Plants in Spain is calculated using the straight-line method over 25 years starting connection to the national grid that represent the estimated useful lives of the assets. During the year ended December 31, 2018, the Company had recorded depreciation expenses with respect to its PV Plants in Italy and Spain of approximately €4,396 thousand.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 7 - Fixed assets (cont'd)

Presented hereunder are data regarding the Company's investments in photovoltaic plants as at December 31, 2018:

<u>PV Plant Title</u>	<u>Nominal Capacity</u>	<u>Connection to Grid</u>	<u>Cost included in the Book value as at December 31, 2018</u>
			<u>€ in thousands</u>
"Troia 8"	995.67 kWp	January 2011	3,502
"Troia 9"	995.67 kWp	January 2011	3,478
"Del Bianco"	734.40 kWp	April 2011	2,096
"Costantini"	734.40 kWp	April 2011	2,115
"Giaché"	730.01 kWp	April 2011	2,767
"Massaccesi"	749.7 kWp	April 2011	2,750
"Galatina"	994.43 kWp	May 2011	4,131
"Pedale"	2,993 kWp	May 2011	11,254
"Acquafresca"	947.6 kWp	June 2011	3,165
"D'Angella"	930.5 kWp	June 2011	3,119
"Soleco"	5,924 kWp	August 2011	15,335
"Technoenergy"	5,900 kWp	August 2011	15,196
"Ellomay Spain – Rinconada II"	2,275 kWp	June 2010	5,509
"Rodríguez I"	1,675 kWp	November 2011	3,662
"Rodríguez II"	2,691 kWp	November 2011	6,631
"Fuente Librilla"	1,248 kWp	June 2011	3,212
"Talasol"	300 MWP	-	10,367

Investment in Biogas Installations

In connection with the Company's Biogas Installations (see Note 6C 1), the Company recorded as of December 31, 2018, fixed assets at an aggregate value of approximately €18,656 thousand, in accordance with actual costs incurred.

Depreciation with respect to the Biogas Installations is calculated using the straight-line method over 12 years commencing from the connection to the national grid that represent the estimated useful lives of the assets. During the year ended December 31, 2018, the Company had recorded depreciation expenses with respect to its Biogas Installations in the Netherlands of approximately €1,081 thousand.

Capitalized borrowing costs

In the reporting period borrowing costs in the amount of €81 thousand were capitalized to qualifying assets.

Note 8 - Other Payables

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>€ in thousands</u>		
Employees and payroll accruals	111	241
Government authorities	185	227
SWAP and forward related balances	365	121
Accrued expenses	2,316	1,414
Current tax	126	184
	<u>3,103</u>	<u>2,187</u>

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 9 - Current maturities of long term loans

Composed as follows:

	Linkage terms	Interest rate 2017 and 2018	December 31 2018	December 31 2017
		%	€ in thousands	
Current maturities of long term loans (refer to Notes 10 and 11)	EURIBOR	1.6-3.5	4,405	1,648
	Consumer price index in Israel	4.65	1,459	1,455
			<u>5,864</u>	<u>3,103</u>

Note 10 – Finance Lease Obligation

Composed as follows:

	Linkage Terms	Interest rate 2017 and 2018	December 31 2018	December 31 2017
		%	€ in thousands	
Leasing institution	EURIBOR	3.5	-	4,020
Current maturities			-	330
Leasing institution-long term			-	<u>3,690</u>

- On December 31, 2010, two wholly-owned Italian subsidiaries of the Company entered into financial leasing agreements, (the “Leasing Agreements”) in the amount of €3,000 thousand each (€6,000 thousand in total) for the financing of the subsidiaries, with a nominal annual interest rate of 3.43%. The Company is required to make monthly payments in the amount of €20 thousand each, commencing 210 days after issuance, for the duration of the Leasing Agreements (17 years) which are linked to the 3 months EURIBOR. As of December 31, 2011, the first two drawdowns under the Leasing Agreements were received in the aggregate amount of approximately €5 million net of expenses capitalized in the amount of approximately €1.142 million comprised mainly of Cadastral tax and VAT paid in connection with the Leasing Agreements. In March 2012, the final drawdown under the Leasing Agreements was received in the amount of approximately €818.5 thousand.
- On May 17, 2018, five of the Company’s Italian subsidiaries (together, hereinafter – the “Subsidiaries”) entered into a €35.9 million project finance Facility Agreement (the “Facility Agreement”). The €35.9 million principal amount is divided into: (i) five term loan facilities, one for each Subsidiary, which are to be used to refinance the existing financing of the subsidiaries including the finance lease obligation and for general purposes of the Subsidiaries, in the aggregate amount of €33.7 million with terms ending in May 2028, and (ii) five revolving facilities, one for each Subsidiary, aimed to cover financial needs for the debt service coverage in case of a liquidity shortfall of the Subsidiaries, in the aggregate amount of €2.2 million with terms ending in November 2027. The Company repaid the entire finance lease obligation under the Leasing Agreements on that date.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 11 - Loans

A. Loans details

Composed as follows:

	Linkage term	Interest rate 2018 %	December 31 2018 € in thousands
Bank loans	EURIBOR	1.6-3	42,545
	Consumer price index in Israel	4.65	18,843
Other long-term loans		2.5-5	4,704
			66,092
	Linkage term	Interest rate 2017 %	December 31 2017 € in thousands
Bank loans	EURIBOR	1.6-3	19,661
	Consumer price index in Israel	4.65	20,820
Other long-term loans		2.5-5	4,383
			44,864

1. On February 17, 2011, one of the Company's Italian subsidiaries entered into a project finance facilities credit agreement (the "Finance Agreement") with an Italian bank (Centrobanca – Banca di Credito Finanziario e Mobiliare S.p.A., acquired by UBI in 2013). Pursuant to the Finance Agreement a Senior Loan was provided with respect to the costs of construction of the relevant PV Plants (Del Bianco and Costantini) (up to 80% of the relevant amount), in the amount of €4.1 million, accruing interest at the EURIBOR rate, increased by a margin of 200 basis points per annum, to be repaid in six-monthly installments with a maturity date of December 31, 2027. On November 30, 2011, an amount of approximately €3.8 million was drawn down on account of this Senior Loan. Related expenses capitalized to the loan comprised mainly of related notary fee and bank charges amount to approximately €170 thousand.

The Finance Agreement also requires the payment of commitment fees equal to 0.5% per annum calculated on the undrawn and un-cancelled amount of both the Senior Loan and the VAT Line and certain additional payments, including an arranging fee and annual agency fee.

The Company's Italian subsidiary undertook to comply with the following financial covenants verified at each repayment date starting from the first installment of the Senior Loan and up to the final redemption date:

DSCR (Debt Rate Cover Ratio): equal or greater than 1.25:1;
 LLCR (Loan Life Coverage Ratio): equal or greater than 1.25:1; and
 Debt/Equity: equal or less than 80:20.

As of December 31, 2018, the financial covenants were met.

2. On June 29, 2015, the Company entered into a loan agreement with UBI Banca S.c.p.a., in connection with the financing of one of its PV Plants, pursuant to which the Company received financing amounting to approximately €10,271 thousand, net of expenses capitalized in the amount of approximately €409 thousand bearing an interest at the Euribor 6 month rate plus 2.85% per annum. The interest on the loan and the principal are to be repaid semi-annually. The final maturity date of this loan is December 31, 2029. Draw down of the loan occurred in September 2015.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 11 - Loans (cont'd)**A. Loans details (cont'd)**

Following the entry into the Facility Agreement as set forth in Note 10, the Company repaid the entire loan.

3. The Company's 75% owned Israeli subsidiary promoting the Manara PSP, entered into a loan agreement with the owner of the remaining 25% of its outstanding shares, Sheva Mizrakot Ltd. The unpaid balance (principal and interest) of the loan will bear interest at an annual rate in accordance with the interest rate for the purpose of Section 3(j) of the Israeli Income Tax Ordinance in accordance with the provisions of Regulation 2(a) of the Income Tax Regulations (Determination of Interest Rate for the Purpose of Section 3(j)), 1986. The maturity date of this loan is December 31, 2022. As of December 31, 2018, the amount of the loan is € 930 thousand.
4. Groen Goor, Independent Power Plant B.V. ("IPP") (the entity that holds the permits and subsidies in connection with the Goor Project and is wholly-owned by Groen Goor), Ludan, and Ellomay Luxembourg entered into a senior project finance agreement in 2017 (the "Goor Loan Agreement"), with Coöperatieve Rabobank U.A. ("Rabobank"), that includes the following tranches: (i) two loans with principal amounts of €3,510 thousand (with a fixed interest rate of 3% for the first five years) and €2,090 thousand, (with a fixed interest rate of 2.5% for the first five years), for a period of 12.25 years, repayable in equal monthly installments commencing three months following the connection of the Goor Project's facility to the grid and (ii) an on-call credit facility of €370 thousand with variable interest. The amount of €5,600 thousand was withdrawn in 2017 on account of these loans. In connection with the Goor Loan Agreement, the following securities were provided to Rabobank: (i) pledge on the present and future rights arising from the feedstock purchase agreement, the EPC agreement, the O&M agreement, the SDE subsidy, the various power and green gas purchase agreements, and the green gas certification supply agreement, (ii) pledge on all present and future (a) receivables arising from business and trade, and (b) stock and inventory including machinery and transport vehicles of Groen Goor and IPP; (iii) all rights/claims of Groen Goor and IPP against third parties existing at the time of the execution of the Loan Agreement, including rights from insurance agreements.

Groen Gas Oude Tonge, Groen Gas Oude-Tonge Holding B.V. (the entity that holds the permits and subsidies in connection with the Oude Tonge Project and is wholly-owned by Groen Gas Oude Tonge), Ludan, and Ellomay Luxembourg entered into a senior project finance agreement (the "Oude Tonge Loan Agreement"), with Rabobank, that includes the following tranches: (i) three loans with principal amounts of €3,150 thousand (with a fixed interest rate of 3.1% for the first five years), €1,540 thousand (with a fixed interest rate of 2.9% for the first five years) and €160 thousand, (with a fixed interest rate of 3.4% for the first five years), for a period of 12.25 years, repayable in equal monthly installments commencing three months following the connection of the Oude Tonge Project's facility to the grid and (ii) an on-call credit facility of €100 thousand with variable interest.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 11 - Loans (cont'd)**A. Loans details (cont'd)**

As of December 31, 2018, an amount of €4,850 thousand was withdrawn on account of these loans. In connection with the Oude Tonge Loan Agreement, the following securities were provided to Rabobank: (i) pledge on the present and future rights arising from the feedstock purchase agreement, the EPC agreement, the O&M agreement, the SDE subsidy, the various power and green gas purchase agreements, and the green gas certification supply agreement, (ii) pledge on all present and future (a) receivables arising from business and trade, and (b) stock and inventory including machinery and transport vehicles of Groen Gas Oude Tonge and Groen Gas Oude Tonge Holding B.V.; (iii) all rights/claims of Groen Gas Oude Tonge and Groen Gas Oude Tonge Holding B.V. against third parties existing at the time of the execution of the Loan Agreement, including rights from insurance agreements.

In connection with the Loan Agreements, Ludan and Ellomay Luxembourg, the Company wholly-owned subsidiary: (i) provided the following undertakings to Rabobank: (a) that Groen Goor and Groen Gas Oude Tonge will not make distributions to its shareholders for a period of two years following the execution of the Loan Agreement, (b) that Groen Goor will not make distributions or repurchase its shares so long as the equity (including owners loans) to total assets ratio of Groen Goor is less than 40%, (c) that in the event the equity (including owners loans) to total assets ratio of Groen Goor and Groen Gas Oude Tonge will be below 40%, its shareholders will invest the equity required in order to increase this ratio to 40%, pro rata to their holdings in Groen Goor and Groen Gas Oude Tonge and up to a maximum of €1.2 million, and (d) that they will provide the equity required for the completion of the Goor Project and (ii) provided pledges on their respective rights in connection with the shareholders loans which each provided to Groen Goor and Groen Gas Oude Tonge, which loans shall also be subordinated by Ellomay Luxembourg and Ludan in the favor of Rabobank. As of December 31, 2018, the financial covenants were met.

Shortages in liquidity as a result of exceeding the construction budget and/or extension of start-up costs of the Goor Project and the Oude Tonge Project shall be provided by Ludan and Ellomay Luxembourg and not financed by Rabobank.

In addition, the Company provided a guarantee to Rabobank for the fulfillment of Ellomay Luxembourg's undertakings set forth above.

5. On May 16, 2012, Talmei Yosef entered into a loan agreement with Israeli consortium led by Israel Discount Bank (the "Israeli consortium") in connection with the financing of its PV Plant, pursuant to which Talmei Yosef received financing amounting to NIS 80,000 thousand. During 2013, in accordance with the millstones set on the loan agreement, an aggregate amount of NIS 60,000 thousand was withdrawn on account of such loan agreement. During 2014, an additional aggregate amount of NIS 20,000 thousand was withdrawn.

The loan is linked to the consumer price index and bears an annual interest of 4.65%. The interest on the loan and the principal are repaid semi-annually. The final maturity date of this loan is December 31, 2031.

On December 24, 2014, Talmei Yosef entered into an additional loan agreement with the Israeli consortium in connection with additional financing in the amount of NIS 25,000 thousand. The loan is linked to the consumer price index and bears an annual interest of 4.52%. The interest on the loan and the principal are repaid semi-annually. The final maturity date of this loan is June 30, 2028.

Note 11 - Loans (cont'd)**A. Loans details (cont'd)**

In connection with these loans, the Talmei Yosef project company provided charges on its rights in the PV Plant, notes, equity, goodwill, on all assets of the PV Plant and on future receivables from the IEC and undertook customary limitations and undertakings, including maintaining the following financial ratios: (i) upon withdrawal of funds on account of the loan framework (based on milestones), maintaining an annual Historic ADSCR (Average Debt Service Coverage Ratio), a Projected ADSCR and a Projected LLCR (loan life coverage ratio) of 1.25:1.00, (ii) upon a distribution of profits from the project company, maintaining a Historic ADSCR, a Projected ADSCR and a Projected LLCR of 1.20:1.00, and (iii) throughout the term of the loan, maintaining an annual ADSCR and a Projected ADSCR of 1.05:1.00 for the following 12 months and maintaining an LLCR of 1.08:1.00.

As of December 31, 2018, the financial covenants were met.

6. On May 17, 2018, five of the Company's Italian subsidiaries (together, hereinafter – the “Subsidiaries”) entered into a €35.9 million project finance Facility Agreement (the “Facility Agreement”). The €35.9 million principal amount is divided into: (i) five term loan facilities, one for each Subsidiary, which are to be used to refinance the existing financing of the subsidiaries and for general purposes of the Subsidiaries, in the aggregate amount of €33.7 million with terms ending in May 2028, and (ii) five revolving facilities, one for each Subsidiary, aimed to cover financial needs for the debt service coverage in case of a liquidity shortfall of the Subsidiaries, in the aggregate amount of €2.2 million with terms ending in November 2027.

The loans provided under the Facility Agreement bear an annual interest rate equal to the Euribor 6 month rate plus a margin of 185 basis points. The Facility Agreement includes customary terms, including requirements to maintain financial ratios, various securities provided by the Subsidiaries and a pledge on the shares of the Subsidiaries and subordination agreement provided by Ellomay Luxemburg, the Company's wholly-owned subsidiary and the parent company of the Subsidiaries. The Facility Agreement provides for a cross-collateralization mechanism among the Subsidiaries, whereby each Subsidiary shall guarantee each other's obligations under the Facility Agreement and the other finance documents for a maximum guaranteed amount up to 180% of the relevant Subsidiary's loan facility. In addition, the Company provided guarantees in connection with specific exposures, one in the amount of approximately €1.8 million (an amount that is gradually reduced to zero on January 1 of each of the years 2019-2021) and the second in amounts ranging between approximately €1.0 million up to a maximum of €1.5 million through the date the loans under the Facility Agreement are repaid in full.

In connection with the Facility Agreement, on May 29, 2018, the Subsidiaries entered into interest swap agreements effective from the first repayment date of June 2018 for an amount of approximately €25 million equal to 75% of the overall amount of the term loan facilities (with a decreasing notional principal amount based on the amortization table) until May 2028, replacing the Euribor 6 month rate with a fixed interest rate of 0.71%, resulting in a fixed annual interest rate of 2.56%.

Note 11 - Loans (cont'd)

B. The aggregate annual maturities are as follows:

	December 31 2018	December 31 2017
	<u>€ in thousands</u>	
Second year	6,069	3,403
Third year	5,847	3,584
Fourth year	6,040	3,712
Fifth year	6,163	3,795
Sixth year and thereafter	36,109	27,597
Long-term loans	<u>60,228</u>	<u>42,091</u>
Current maturities	<u>5,864</u>	<u>2,773</u>
	<u><u>66,092</u></u>	<u><u>44,864</u></u>

C. In order to minimize the interest-rate risk resulting from liabilities to banks and financing institutions in Italy linked to the Euribor, the Company executed swap transactions. See Note 21.

D. Movement in liabilities deriving from financing activities

	Note	Liabilities			Total
		Loans and borrowings	Convertible debentures	Finance lease liability	
		<u>€ in thousands</u>			
Balance as at January 1, 2018		44,864	57,631	4,020	106,515
Changes from financing cash flows					
Payment of Debentures	12	-	(4,668)	-	(4,668)
Receipt of loans	10,11	34,745	-	-	34,745
Repayment of loans	10,11	(13,593)	-	-	(13,593)
Accrued interest	10,11	180	-	-	180
Payment of finance lease liability	10	-	-	(4,226)	(4,226)
Transaction costs related to borrowings		606	250	206	1,062
Total net financing cash flows		<u>66,802</u>	<u>53,213</u>	<u>-</u>	<u>120,015</u>
Effect of changes in foreign exchange rates		<u>(710)</u>	<u>(1,870)</u>	<u>-</u>	<u>(2,580)</u>
Balance as at December 31, 2018		<u><u>66,092</u></u>	<u><u>51,343</u></u>	<u><u>-</u></u>	<u><u>117,435</u></u>

Note 12 - Debentures

A. Composed as follows:

	December 31, 2018		December 31, 2017	
	Face value	Carrying amount	Face value	Carrying amount
	€ in thousands		€ in thousands	
Debentures	52,056	51,343	58,623	57,631
Less current maturities	8,975	8,758	4,825	4,644
Total long-term debentures	43,081	42,585	53,798	52,987

B. Debentures – Details

Series A Debentures

On January 13, 2014, the Company issued NIS 120,000 thousand (approximately €25,170 thousand based on the euro/NIS exchange rate at that time) principal amount of unsecured non-convertible Series A Debentures (“Series A Debentures”) through a public offering that was limited to residents of Israel at a price of NIS 973 per unit (each unit comprised of NIS 1,000 principal amount of Series A Debentures). The gross proceeds of the offering were approximately NIS 116,760 thousand (approximately €24,490 thousand, at the date of issuance) and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions were approximately NIS 114,700 thousand (approximately €24,059 thousand).

On June 19, 2014, the Company issued additional NIS 80,341 thousand principal amount of Series A Debentures (approximately €17,115 thousand based on the euro/NIS exchange rate at that time) to Israeli classified investors in a private placement at a price of NIS 1,010 per unit. The gross proceeds of the private placement were approximately NIS 81,144 thousand (approximately €17,286 thousand, at the date of issuance) and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions and interest paid on these additional Series A Debentures in June 2014 were approximately NIS 78,900 thousand (approximately €16,808 thousand).

The Series A Debentures are traded on the TASE (Tel Aviv Stock Exchange) and have been rated ilA-, on a local scale, by Standard & Poor’s Maalot Ltd in 2016 (such rating was updated on November 13, 2017 to ilBBB). The Series A Debentures bear fixed interest at the rate of 4.6% per year and are not linked to the Israeli CPI or otherwise.

The Series A Deed of Trust includes customary provisions and also includes the following: (i) a negative pledge such that the Company may not place a floating charge on all of its assets, subject to certain exceptions, and (ii) an obligation to pay additional interest for certain security rating downgrades, up to an increase of 1% for a decrease of four rating levels compared to the rating at the time of issuance of the Series A Debentures.

The Series A Deed of Trust further includes a number of customary causes for immediate repayment, including a default in connection with certain financial covenants for two consecutive financial quarters, which is not cured within the cure period set forth in the Series A Deed of Trust. The financial covenants are as follows:

1. The Company’s equity, on a consolidated basis, shall not be less than \$55 million;
2. The ratio of (a) the short-term and long-term debt from banks, in addition to the debt to holders of debentures issued by us and any other interest-bearing financial obligations, net of cash and cash equivalents and short-term investments and net of project finance, including hedging transactions in connection with such project finance, of our subsidiaries, or, together, the Net Financial Debt, to (b) the Company’s equity, on a consolidated basis, plus the Net Financial Debt, shall not exceed a rate of 65%; and

Note 12 – Debentures (cont'd)**B. Debentures – Details (cont'd)**

3. The ratio of (a) the Company's equity, on a consolidated basis, to (b) the Company's balance sheet, on a consolidated basis, shall not be less than a rate of 20%.

The Series A Deed of Trust further provides that the Company may make distributions (as such term is defined in the Companies Law, e.g. dividends), to shareholders, provided that: (a) the Company's equity following such distribution will not be less than \$75 million, (b) the Company shall meet the financial covenants set forth above prior to and following the distribution, (c) the Company will not distribute more than 75% of the distributable profit and (d) the Company will not distribute dividends based on profit due to revaluation (for the removal of doubt, negative goodwill will not be considered a revaluation profit).

As of December 31, 2018, the financial covenants were met.

Series B Debentures

On March 14, 2017, the Company issued Series B Nonconvertible Debentures due June 30, 2024 in a public offering in Israel in the aggregate principal amount of NIS 123,232,000 (approximately €31.7 million based on the euro/NIS exchange rate at that time). The gross proceeds of the offering were NIS 123,232,000 and the net proceeds of the offering, net of related expenses such as consultancy fee and commissions (partially paid in 2016), were approximately NIS 121.4 million (approximately €31.2 million). The Series B Debentures originally bore a fixed annual interest rate of 3.44% and are not linked to the Israeli CPI or otherwise. On November 13, 2017 Standard & Poors Maalot Ltd. updated the rating of the Company and of the Company's Series A and Series B Nonconvertible Debentures traded on the Tel Aviv Stock Exchange from "ilA-" to "ilBBB+". Pursuant to the terms of the Company's Series B Debentures, this rating downgrade triggered an increase of 0.25% in the annual interest rate payable on the principal of these Debentures on November 14, 2017. The annual interest rate payable on the principal of the Company's Series A Debentures will remain unchanged. The principal amount of Series B Debentures is repayable in six (6) annual installments as follows: on June 30 of each of the years 2019-2022 (inclusive) 15% of the Principal shall be paid, and on June 30 of each of 2023-2024 (inclusive) 20% of the Principal shall be paid, and is not linked to the CPI or otherwise. The interest on the Series B Debentures is payable semi-annually on June 30 and December 31 of each of the years 2017 through June 30, 2024 (inclusive).

The Series B Deed of Trust includes customary provisions and also includes the following: (i) a negative pledge such that we may not place a floating charge on all of our assets, subject to certain exceptions, (ii) an obligation to pay additional interest for certain security rating downgrades, up to an increase of 1% for a decrease of four rating levels compared to the rating at the time of issuance of the Series B Debentures and (iii) an obligation to pay additional interest for failure to maintain certain financial covenants, up to an increase of 1% (with a cap on the combined increase in interest due to security rating downgrades and failure to meet financial covenants of 1.75%). The Series B Deed of Trust does not restrict our ability to issue any new series of debt instruments, other than in certain specific circumstances, and enables us to expand the Series B Debentures subject to maintaining the rating assigned to the Series B Debentures and to our continued compliance with the financial covenants included in the Series B Deed of Trust and provided that we are not in default of any of the immediate repayment provisions included in the Series B Deed of Trust or in material default of our obligations to the holders of the Series B Debentures pursuant to the terms of the Series B Deed of Trust.

The Series B Deed of Trust further includes a number of customary causes for immediate repayment, including a default in connection with certain financial covenants for two consecutive financial quarters. The financial covenants are as follows:

Note 12 – Debentures (cont'd)**B. Debentures – Details (cont'd)**

1. The Company's equity, on a consolidated basis, shall not be less than \$55 million;
2. The ratio of (a) the short-term and long-term debt from banks, in addition to the debt to holders of debentures issued by us and any other interest-bearing financial obligations, net of cash and cash equivalents and short-term investments and net of financing of projects, including hedging transactions in connection with such financing, of our subsidiaries, or, together, the Net Financial Debt, to (b) the Company's equity, on a consolidated basis, plus the Net Financial Debt:
 - a. Until and including the financial results for June 30, 2018 – shall not exceed the rate of 65% for purposes of the immediate repayment provision and shall not exceed the rate of 60% for purposes of the interest increase provision (due to failure to meet financial covenants as noted above); and
 - b. Commencing from the financial results for September 30, 2018 – shall not exceed the rate of 60% for purposes of the immediate repayment provision and shall not exceed the rate of 55% for purposes of the interest increase provision; and
3. The ratio of (a) the Company's equity, on a consolidated basis, to (b) the Company's balance sheet, on a consolidated basis:
 - c. Until and including the financial results for June 30, 2018 – shall not be less than a rate of 20% for purposes of the immediate repayment provision and shall not be less than a rate of 25% for purposes of the interest increase provision; and
 - d. Commencing from the financial results for September 30, 2018 – shall not be less than a rate of 25% for purposes of the immediate repayment provision and shall not be less than a rate of 30% for purposes of the interest increase provision.

The Series B Deed of Trust includes similar conditions to our ability to make distributions (as such term is defined in the Companies Law, e.g. dividends), to our shareholders as are included in the Series A Deed of Trust and set forth above.

As of December 31, 2018, the financial covenants were met.

In order to manage the currency risk resulting from the Series B Debentures, which are denominated in NIS, the Company executed currency swap transactions in April 2017. The Company exchanged Series B Debentures NIS denominated notional principal in the aggregate amount of NIS 83,232 thousand (approximately €19,394 thousand, based on the NIS/euro exchange rate as at December 31, 2018) with a euro notional principal (currency swap transactions). Such currency swap transactions qualify for hedge accounting.

C. The aggregate annual maturities are as follows:

	December 31 2018	December 31 2017
	€ in thousands	
Second year	8,789	8,977
Third year	8,833	9,084
Fourth year	8,874	9,129
Fifth year	10,354	9,171
Sixth year and thereafter	5,735	16,626
Long-term loans	42,585	52,987
Current maturities	8,758	4,644
	51,343	57,631

Note 13 - Other Long-term Liabilities

	December 31 2018	December 31 2017
	€ in thousands	
Government authorities	209	239
Derivatives	3,362	4,312
Forward contracts (1)	1,730	-
Liabilities for employees benefits	19	4
	5,320	4,555

- (1) The Company closed euro/USD forward contracts with an accumulated loss of approximately €1,730 thousand (approximately \$1,982) that are expected to be received between 2021 and 2022 (depending on the relevant dates of the forward positions).

Note 14 - Commitments and Contingent Liabilities**A. Lease commitments**

The PV Plants are constructed on land leased for 20-25 years under operating lease agreements, which expire on various dates, ranging from 2031 to 2036. In respect to several of the leases the Company has the option to extend the lease for different terms, the latest of which is until 2051. The Company leases its office space under an operating lease that expires in September 2020. The following table summarizes the minimum annual rental commitments as of the periods indicated under the non-cancelable operating leases and sub-lease arrangements with initial or remaining terms of more than one year, reflecting the terms that were in effect as of December 31, 2018:

	Operating lease € in thousands
Year ended December 31	
2019	427
2020	408
2021	352
2022	352
2023 and thereafter	3,988
Total minimum lease payments	5,527

B. Legal proceedings:

Other than described elsewhere in these financial statements, there are no additional material legal proceedings that require further disclosure.

Note 14 - Commitments and Contingent Liabilities (cont'd)**C. Pledges:**

The Company placed the following first ranking unlimited pledges and provided the following undertakings to secure its credit facilities:

- A fixed pledge and mortgage on the Company's holdings of Ellomay Clean Energy, Limited Partnership, the holdings of such partnership in U. Dori Energy Infrastructures Ltd. and the holdings of the Company in the general partner of said partnership, Ellomay Clean Energy Ltd as well as on the rights (including shareholders loans) of said general partner in and/or towards the partnership.
- A fixed pledge on Ellomay Clean Energy, Limited Partnership and Ellomay Clean Energy Ltd.'s bank accounts.
- A floating lien on Ellomay Clean Energy Ltd.'s rights, assets, registered and non-issued capital and goodwill.

Note 15 - Transactions and Balances with Related Parties

- A.** On December 30, 2008, the Company's shareholders approved the terms of a management services agreement entered into among the Company, Kanir Joint Investments (2005) Limited Partnership ("Kanir") and Meisaf Blue & White Holdings Ltd. ("Meisaf"), a company controlled by the Company's chairman of the board and controlling shareholder, effective as of March 31, 2008 (the "Management Agreement"). According to the Management Agreement, Kanir and Meisaf, through their employees, officers and directors, provide assistance to the Company in all aspects of the new operations process, including but not limited to, any activities to be conducted in connection with identification and evaluation of the business opportunities, the negotiations and the integration and management of any new operations and including discussions with the Company's management to assist and advise them on such matters and on any matters concerning the Company's affairs and business. In consideration of the performance of the management services and the board services pursuant to the Management Agreement, the Company initially agreed to pay Kanir and Meisaf an aggregate annual management services fee in the amount of \$250 thousand.

This annual amount was increased to \$400 thousand in June 2013 (approximately €349 thousand, based on the NIS/euro exchange rate as at December 31, 2018) following approval by the Audit Committee, Compensation Committee, Board of Directors and by the Company's shareholders at the shareholders' meeting held in June 2013. The current term of the Management Agreement is until June 17, 2019.

The Company sub-leases a small part of its office space to a company controlled by Mr. Shlomo Nehama, the Company's chairman of the Board and a controlling shareholder, at a price per square meter based on the price that it pays under its lease agreements. This sub-lease agreement was approved by the Company's Board of Directors.

Note 15 - Transactions and Balances with Related Parties (cont'd)

B. Compensation to key management personnel and interested parties (including directors)

Directors participate in the Company's share option programs. For further information see Note 16 regarding share-based payments.

Compensation to key management personnel and interested parties that are employed by the Company:

	Year ended December 31					
	2018		2017		2016	
	Number of People	Amount € thousands	Number of People (**)	Amount € thousands	Number of people	Amount € thousands
Short-term employee Benefits	2	371	2	377	2	368
Post-employment Benefits	2	48	2	57	2	89
Share-based payments	2	-	2	-	2	*

* Less than €1 thousand

** Including retired employees that were not employed throughout the entire year

Compensation to key management personnel (including directors but excluding compensation paid under the Management Agreement) that are not employed by the Company:

	Year ended December 31					
	2018		2017		2016	
	Number of people	Amount € thousands	Number of people	Amount € thousands	Number of People (**)	Amount € thousands
Total compensation to directors not employed by the Company	3	49	3	35	3	63
share-based payments	3	5	3	14	3	3

* Less than €1 thousand

** Including Board members that did not serve throughout the entire year

C. Debts and loans to related and interested parties

	The terms of the loan		Balance as at December 31		Interest income recognized in statement of income for the year ended December 31		
	Interest rate	Linkage base	2018	2017	2018	2017	2016
	%		€ thousands				
Dori Energy	8.1 (*)	NIS+CPI	9,189	13,025	1,130	1,158	1,243

(*) See Note 6A

Note 16 - Equity

A. Composition of share capital

	December 31, 2018		December 31, 2017		December 31, 2016	
	Authorized	Issued and Outstanding(1)	Authorized	Issued and outstanding(1)	Authorized	Issued and Outstanding
	Number of shares					
Ordinary shares						
Of NIS 10.00 par value each	17,000,000	10,675,508(1)	17,000,000	10,675,508(1)	17,000,000	10,677,370(1)

(1) Net of treasury shares as follows: 258,046 Ordinary shares as of December 31, 2018, and as of December 31, 2017 and 256,184 Ordinary shares as of December 31, 2016, all of which have been purchased according to share buyback programs that were authorized the Company's Board of Directors.

B. Rights attached to shares:

1. Voting rights at the general meeting, right to dividend and rights upon liquidation of the Company.
2. The Ordinary shares of the Company were traded until May 2005 on the NASDAQ Capital Market. From May 19, 2005, the Company's Ordinary shares have been quoted over-the-counter in the "pink sheets" and, commencing August 22, 2011, have been listed on the NYSE American (formerly the NYSE MKT and the NYSE Amex). On October 27, 2013, the Company's ordinary shares were also listed for trading on the Tel Aviv Stock Exchange in Israel.

C. Translation reserve from foreign operation

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

D. Capital management in the Company

The Company's capital management objectives are:

1. To preserve the Company's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.
2. To ensure adequate return for the shareholders by making reasonable investment decisions based on the level of internal rate of return that is in line with the Company's business activity.
3. To maintain healthy capital ratios in order to support business activity and maximize shareholders value.

Note 16 - Equity (cont'd)**E. Dividend distribution and buyback program**

On March 18, 2015, the Company's Board of Directors adopted a dividend distribution policy (the "Policy"), pursuant to which the Company intends to distribute a dividend of up to 33% of the annual distributable profits each year, either by way of a cash dividend, a share buyback program or a combination of both. The distribution of the dividends and the dividend amounts pursuant to the Policy are not guaranteed and are subject to the specific approval of the Company's Board of Directors, based on various factors they deem appropriate including, among others, the Company's financial position, the Company's outstanding liabilities and contractual obligations, prospective acquisitions, the Company's business plan and the market conditions.

In May 2015, the Company's Board of Directors approved the repurchase of up to \$3,000 thousand (approximately €2,700 thousand) of the Company's ordinary shares. The authorized repurchases will be made from time to time in the open market on the NYSE American and Tel Aviv Stock Exchange or in privately negotiated transactions. The timing, volume and nature of share repurchases will be at the sole discretion of management and will be dependent on regulatory restrictions, market conditions, the price and availability of the Company's ordinary shares, applicable securities laws and other factors, including compliance with the terms of the Series A and Series B Debentures. No assurance can be given that any particular amount of ordinary shares will be repurchased. The buyback program does not obligate the Company to acquire a specific number of shares in any period, and it may be modified, suspended, extended or discontinued at any time, without prior notice. As of December 31, 2018, the Company repurchased 172,391 ordinary shares at an aggregate purchase price of \$1,477 thousand (approximately €1,332 thousand) in the NYSE American under this buyback program.

Note 17 - Share-Based Payment**A. Expenses recognized in the financial statements**

The expenses recognized in the financial statements for services received from employees is shown in the following table:

	Year ended December 31		
	2018	2017	2016
	€ thousand		
Expenses arising from share-based payment Transactions	5	5	3

The share-based payments that the Company granted to its employees and directors are described below. There have been no modifications or cancellations to any of the stock options plans during 2018, 2017 or 2016. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Note 17 - Share-Based Payment (cont'd)

A. Expenses recognized in the financial statements (cont'd)

The fair value of the options is estimated using a Black-Scholes options pricing model with the following weighted average assumptions:

	Year ended December 31		
	2018	2017	2016
Dividend yield	0%	0%	0%
Expected volatility	0.384	0.342	0.332
Risk-free interest	2.67%	1.34%	0.67%
Expected life (in years)	2-3	2-3	2-3

All options granted during 2018, 2017 and 2016 were granted with exercise price equal to or higher than the market price on the date of grant. Weighted average fair values and exercise price of options on dates of grant are as follows:

	Equal market price	
	2018	2017
	US\$	
Weighted average exercise prices	8.95	9.02
Weighted average fair value on grant date	2.1	1.8

B. Stock Option Plans

In December 1998, the Company's shareholders approved the non-employee director stock option plan (the "1998 Plan"). Each option granted under the 1998 Plan originally vested immediately and expires after 10 years. Generally, the Company grants options under the plan with an exercise price equal to the market price of the underlying shares on the date of grant. An aggregate amount of not more than 75,000 ordinary shares was reserved for grants under the 1998 Plan. The original expiration date of the 1998 Plan pursuant to its terms was December 8, 2008 (10 years after its adoption). In January 2008 and June 2018, the term of the 1998 Plan was extended and as a result it will expire on December 8, 2028, unless earlier terminated by the Board. In connection with the adoption of the Company's compensation policy in 2013, the 1998 Plan was amended to provide that options granted under the 1998 Plan will become exercisable based on the vesting schedule determined in the approvals of the option grant. During each of the years 2018, 2017 and 2016, the Company granted to independent directors options to purchase an aggregate amount of 3,000 ordinary shares under the 1998 Plan.

In August 2000, the Company's board of directors adopted the 2000 Stock Option Plan (the "2000 Plan"). The initial reserve to the 2000 Plan was 200,000 ordinary shares underlying options that may be granted to officers, directors, employees and consultants of the Company and its subsidiaries and this initial reserve was increased several times. The options usually vest over a three year period. The exercise price of the options under the 2000 Plan is determined to be not less than 80% of the fair market value of the Company's ordinary shares at the time of grant, and they usually expire after 10 years from the date of grant. In June 2008 and June 2018 the term of the 2000 Plan was extended by additional 10 year periods and the current expiration date of the 2000 Plan is August 31, 2028.

Note 17 - Share-Based Payment (cont'd)

B. Stock Option Plans (cont'd)

As of December 31, 2018, 27,169 options are outstanding and 30,416 ordinary shares are available for future grants under the 1998 Plan. As of December 31, 2018, no options are outstanding and 595,009 ordinary shares are available for future grants under the 2000 Plan. Options that are cancelled or forfeited become available for future grant.

C. Changes during the year:

The following table lists the number of share options, the weighted average exercise prices of share options during the current year:

	2018		2017		2016	
	Number of options	Weighted Average Exercise Price US\$	Number of options	Weighted average exercise price US\$	Number of options	Weighted Average Exercise Price US\$
Outstanding at beginning of year	25,502	7.54	22,502	7.34	19,502	7.19
Granted during the year	3,000	8.95	3,000	9.02	3,000	8.3
Exercised during the year	-	-	-	-	-	-
Expired during the year	1,333	5	-	-	-	-
Outstanding at end of year	<u>27,169</u>	<u>7.82</u>	<u>25,502</u>	<u>7.54</u>	<u>22,502</u>	<u>7.34</u>
Exercisable at end of year	<u>24,169</u>	<u>7.68</u>	<u>22,502</u>	<u>7.34</u>	<u>18,502</u>	<u>7.19</u>

- D.** The weighted average remaining contractual life for the share options outstanding as of December 31, 2018 was 5.51 years (as of December 31, 2017 was 5.72 years and as of December 31, 2016 was 4.1- 8.1 years).
- E.** The range of exercise prices for share options outstanding as of December 31, 2018: \$4.7- \$9.37 (as of December 31, 2017 and as of December 31, 2016 was \$4.7- \$9.37).

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 18 - Details of the Statements of Profit or Loss and Other Comprehensive Income (Loss)

A. Financing income and expenses:

1. Financing income

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Interest Income and consumer price index in Israel in connection to concession project	1,948	789	-
Interest income	291	544	263
Change in fair value of derivatives, net	494	-	636
Gain from exchange rate differences, net	697	-	-
Total financing income	3,430	1,333	899

2. Financing expenses

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Change in fair value of derivatives, net	-	3,156	-
Swap interest	206	110	607
Debentures interest and related expenses	2,604	2,753	1,990
Interest on loans	2,330	776	504
Loss from exchange rate differences, net	-	3,586	81
Consumer price index in Israel for loan	171	-	-
Bank charges and other commissions	210	180	151
Total financing expenses	5,521	10,561	3,333

B. Operating Costs, Depreciation and Amortization

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Depreciation	5,500	4,518	4,411
Amortization	316	-	-
Professional services	375	210	104
Annual rent	390	267	233
Operating and maintenance services	4,942	1,574	1,287
Insurance	245	203	194
Other	390	295	264
Total operating costs	12,158	7,067	6,493

C. General and administrative expenses

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Salaries and related compensation	1,016	1,030	1,027
Professional services	2,185	1,255	1,480
Other	399	135	(475)
Total general and administrative expenses	3,600	2,420	2,032

Note 18 - Details of the Statements of Profit or Loss and Other Comprehensive Income (Loss) (Cont'd)

D. Other income (expense), net

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Other income in connection with the A.R.Z. electricity pumped storage project (see Note 6)	73	18	56
Compensation from contractor (*)	811	-	-
Other	-	-	34
Total other income, net	884	18	90

(*) Compensation from EPC and O&M contractor of the Company's Bio Gas projects in Netherlands due to deficiencies in the operation of these projects.

E. Revenues

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Revenues from the sale of solar electricity	12,593	13,150	11,632
Revenues from the sale of gas and power produced by anaerobic digestion plants	4,483	303	-
Revenues from concessions project	1,041	183	-
Total Revenues	18,117	13,636	11,632

Note 19 - Taxes on Income

A. Regional Taxation

Israeli taxation

Presented hereunder are the tax rates relevant to the Company in the years 2016-2018:
2016 – 25%, 2017 – 24% and 2018 – 23%.

On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016.

Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps.

The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

Luxembourg taxation

Corporate Income Tax rate is 29.22%. Minimum tax payments are made based on the entity's total assets and are considered as a conditional advance tax payment on corporate income tax due in future tax periods.

Note 19 - Taxes on Income (cont'd)**Italian taxation**

As a rule, corporate income tax (named IRES from 2004) is payable by all resident companies on income from any source, whether earned in Italy or abroad, at the rate of 27.5%. Starting from 2017 the IRES rate is reduced to 24%.

Both resident and non-resident companies are subject to regional income tax (IRAP), but only on income arising in Italy at the rate from 0% (for a short period of couple of years) to 4.82%, depending on the Region.

During 2015 the company applied a tax incentive as per Article 6 paras. 13-19 of Law 23 December 2000, no. 388 (“Tremonti- ambiente”). Such incentive consisted of a reduction of the taxable profit for a fiscal year equal to the amount of investments in tangible fixed assets in the same year, which are necessary to prevent, reduce and repair environmental damages, providing these investments exceed the average environmental investments made in the two previous years. The Company determined the specific amount of environmental investments and filed the required communications with the tax authorities and recorded tax benefit in the amount of approximately €2,900 thousand. During 2017, following a tax inspection and a final settlement reached with the tax authorities, the Company reduced the recorded tax benefit by approximately €500 thousand.

Spanish taxation

As a rule, corporate income tax is payable by all resident companies on income from any source, whether earned in Spain or abroad at the rate of 25%.

The Netherlands taxation

Prior to 1 January 2019, the Dutch corporate income tax rate was 20% on the first EUR 200,000 of taxable profits (lower rate), and 25% on taxable profits exceeding that amount (standard rate). The rates will be gradually reduced - the standard rate will be reduced from 25% to 22.55% in 2020 and to 20.5% in 2021. The lower rate will decrease from 20% to 19% in 2019, to 16.5% in 2020, and to 15% in 2021.

Dutch tax laws provide for an Energy Investment Allowance (“EIA”) – a tax advantage for companies in the Netherlands that invest in energy-efficient technology that meet the E-nergy List requirements, allowing a deduction of 58% of the investment costs from the corporate income, on top of the usual depreciation. The right to the EIA is declared with the tax return, provided the investment is timely reported to the Netherlands Enterprise Agency.

B. Composition of income tax benefit (taxes on income):

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Current tax income (expense)			
Current year	(438)	(494)	(252)
Previous years	26	1,044	(67)
	(412)	550	(319)
Deferred tax income			
Creation and reversal of temporary differences	197	(922)	(250)
Taxes on income	(215)	(372)	(569)

Note 19 - Taxes on Income (cont'd)

C. Theoretical tax:

Statutory rate applied to corporations in Israel and the actual tax expense, is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>€ in thousands</u>		
Profit (loss) before taxes on income	819	(6,269)	(63)
Primary tax rate of the Company	23%	24%	25%
Tax benefit (tax on income)	<u>(188)</u>	<u>1,505</u>	<u>16</u>
Profit (loss) subject to different tax rate	45	(106)	(15)
Changes in deferred taxes for tax losses and benefits from previous years for which deferred taxes were not created in the past	-	(448)	-
Neutralization of tax calculated in respect of the Company's share in profits of equity accounted investees	585	367	344
Change in temporary differences for which deferred tax were not recognized	(576)	(359)	(347)
Current year tax losses and benefits for which deferred taxes were not created	(136)	(1,142)	(378)
Tax benefit (taxes) in respect to previous years and others	<u>55</u>	<u>(189)</u>	<u>(189)</u>
Actual tax on income	<u>(215)</u>	<u>(372)</u>	<u>(569)</u>

D. Carry forward tax losses:

During 2018, following a tax inspection and a final settlement reached with the tax authorities, the Company reduced the carry forward tax losses by approximately €20,000 thousand.

As of December 31, 2018, Ellomay Capital Ltd. had available carry forward tax losses, carry forward capital tax losses and deductions aggregating to approximately €20,838 thousand, which have no expiration date.

Deferred taxes of the Company have not been recognized as the Company has carry forward tax losses. The Company's management currently believes that as Ellomay Capital Ltd. has a history of losses it is more likely than not that the deferred tax regarding losses carry forward will not be utilized in the foreseeable future.

Deferred taxes are recognized by operating subsidiaries for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 19 - Taxes on Income (cont'd)

E. Deferred taxes:

	Financial assets	Fixed assets	Finance lease obligations and long term loans	Swap contract	Losses on income	Total
	€ in thousands					
Balance of deferred tax asset (liability) as at January 1, 2017	(1,279)	(3,061)	2,104	178	3,662	1,604
Changes recognized due to business combination	(7,678)	-	-	-	2,791	(4,887)
Changes recognized in profit or loss	1,565	(117)	(84)	(61)	(2,225)	(922)
Balance of deferred tax asset (liability) as at December 31, 2017	<u>(7,392)</u>	<u>(3,178)</u>	<u>2,020</u>	<u>117</u>	<u>4,228</u>	<u>(4,205)</u>
	Financial assets	Fixed assets	Finance lease obligations and long term loans	Swap contract	Losses on income	Total
	€ in thousands					
Balance of deferred tax asset (liability) as at January 1, 2018	(7,392)	(3,178)	2,020	117	4,228	(4,205)
Changes recognized due to business combination	-	-	-	-	2	2
Changes recognized in profit or loss	200	1,262	(1,310)	39	6	197
Changes recognized in other comprehensive income	257	-	-	42	(89)	210
Balance of deferred tax asset (liability) as at December 31, 2018	<u>(6,935)</u>	<u>(1,916)</u>	<u>710</u>	<u>198</u>	<u>4,147</u>	<u>(3,796)</u>

Note 20 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	For the year ended December 31		
	2018	2017	2016
	€ in thousands (other than share and per share data)		
Net income (loss) attributed to owners of the Company	1,057	(6,115)	(209)
Weighted average ordinary shares outstanding (1)	10,675,508	10,675,757	10,677,700
Dilutive effect:			
Stock options and warrants	3,349	-	-
Diluted weighted average ordinary shares Outstanding	10,678,857	10,675,757	10,677,700
Basic profit (loss) per share from continuing operations	0.10	(0.57)	(0.02)
Diluted profit (loss) per share from continuing operations	0.10	(0.57)	(0.02)

(1) Net of treasury shares.

Amount of dilutive stock options and warrants that were not included in diluted loss per share because they are anti-dilutive for the year ended December 2017 is 3,198 and for the year ended December 2016 is 2,953.

Note 21 - Financial Instruments

A. Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents quantitative and qualitative information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk.

In order to manage these risks and as described hereunder, the Company executes transactions in derivative financial instruments. Presented hereunder is the composition of the derivatives:

	For the year ended December	
	2018	2017
	€ in thousands	
Derivatives presented under current liabilities		
Currency swap	(192)	-
Swap contracts	(173)	(121)
	<u>(365)</u>	<u>(121)</u>
Derivatives presented under non-current liabilities		
Forward contracts	(977)	(2,650)
Currency swap	(1,925)	(1,244)
Swap contracts	(459)	(418)
	<u>(3,361)</u>	<u>(4,312)</u>

The following table sets forth the details of the Company's Forward and SWAP contracts with banking institutions:

	December 31, 2018			
	Currency/ linkage/interest rate	Currency/ Linkage/interest rate	Date of expiration	Fair value - € in thousand
	receivable	Payable		
Euro 3.75 million interest swap transaction for a period of 15 years, semi-annually.	Euribor 6 months	Fixed 2.53%	June 30, 2027	(236)
Euro 25 million interest rate swap transaction for a period of 10 years, semi-annually.	Euribor 6 months	Fixed 0.71%	December 31, 2027	(396)
Forward EUR/USD contracts with an aggregate EUR denominated principal of EUR 18 million.	weighted average rate of approximately 1.18		November 2021	(977)
NIS 83.2 million currency swap transaction EUR/NIS for a period of 7 years, semi-annually.	NIS	Euro	June 2024	(2,117)

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 21 - Financial Instruments (cont'd)**B. Risk management framework**

The Company's management and board of directors have overall responsibility for the establishment and oversight of the Company's risk management framework.

C. Credit Risk

As at December 31, 2018, the Company does not have any significant concentration of credit risk.

Cash and short-term deposits

As at December 31, 2018 and 2017, the Company had cash and cash equivalents in the amount of €36,882 thousand and €23,962 thousand, respectively. The Company's cash and cash equivalents are deposited with financial institutions that received a credit rating (international rating scale). See also Note 3.

Marketable securities

As at December 31, 2018 and 2017, the Company invested in a traded Bond in an amount of €2,132 thousand and €5,412 thousand, respectively, with the intention to maintain the value of its liquid resources. See also Note 4 and Note 2-G.

Restricted cash

As at December 31, 2018 and 2017, the Company had a balance of current restricted cash in an amount of €4,653 thousand and €15 thousand, respectively, and a balance of non-current restricted cash of €2,062 thousand and €3,660 thousand, respectively. See also Note 4.

Trade and other receivables

As at December 31, 2018 and 2017, the Company had a balance of trade receivables of €156 thousand and €406 thousand, respectively. This balance mainly refers to NEXUS or GNERA that represent the PV Plants located in Spain in its dealings with the Spanish National Energy Commission, and are due within 60 days from issuance. It is also referring to the balance from the Israeli Electricity Authority for the PV Plant located in Israel and is due in 30 days.

As at December 31, 2018 and 2017, the Company had a balance of revenue receivables of €3,830 thousand and €3,436 thousand, respectively. This balance refers to amounts to be paid from several entities. In Italy, the amounts to be paid are from GSE, Italy's energy regulation agency. The incentives are paid through equal monthly installments in an amount of 90% of the average production of each plant in the relevant solar calendar year, based on the effective production before June 30th of the previous year, or if not available, on the basis of the regional forecast. The balance is paid within 60 days from the sending of the actual production data and in any event within June 30th of the subsequent year. In Spain, the amounts to be paid are from NEXUS or GNERA that represent the PV Plants located in Spain in its dealings with the Spanish National Energy Commission. To the extent the facility is eligible to receive incentives (such as the Company's existing four Spanish PV facilities), the incentives (consisting of an investment retribution and operational retribution) are paid on a monthly basis (commencing January) based on varying percentages of the accumulated incentives from the beginning of the fiscal year, provided that the entire amount of the incentives is required to be paid to the eligible entity by the end of June of the following fiscal year. In the Netherlands, the amounts to be paid are from Enterprise Agency that is responsible to pay the amount of subsidy for the Bio Gas plants in the Netherlands. The incentives are paid through equal monthly installments based on the effective production of the previous year for each plant, or if not available, on the basis of the regional forecast. The balance is paid within June 30th of the subsequent year.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 21 - Financial Instruments (cont'd)

C. Credit Risk (cont'd)

Trade and other receivables (cont'd)

The Company's management closely monitors the economic and political environment in which it operates. As per the Company's management estimations there are no significant credit risks assigned to the trade receivables and income receivables as these amounts are due by governmental agencies.

As at December 31, 2018 and 2017, the Company had a balance of government authorities' receivables of €2,706 thousand and €2,306 thousand, respectively. This balance refers to VAT and withholding tax receivables in Italy, Spain and the Netherlands.

D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has contractual commitments due to debentures issued and financing agreements and EPC and O&M agreements of its subsidiaries in Italy and Spain. See also Note 14A.

The following are the contractual maturities of financial liabilities at undiscounted amounts and based on the spot rates at the reporting date, including estimated interest payments. This disclosure excludes the impact of netting agreements:

	December 31, 2018					
	Carrying amount	Contractual cash flows	Less than 1 year	2 years	3-5 years	More than 5 years
	€ in thousands					
Non-derivative financial liabilities						
Long term loans, including current maturities	66,092	71,826	7,350	7,805	22,501	34,170
Debentures	51,343	58,667	11,029	10,656	31,133	5,849
Trade payables and other accounts payable	4,819	4,819	4,819	-	-	-
	<u>122,254</u>	<u>135,312</u>	<u>23,198</u>	<u>18,461</u>	<u>53,634</u>	<u>40,019</u>
Derivative finance liabilities						
Forward contracts	977	977	-	-	977	-
Currency swap	2,117	2,117	192	622	947	356
Swap contracts	632	632	173	263	155	41
	<u>3,726</u>	<u>3,726</u>	<u>365</u>	<u>885</u>	<u>2,079</u>	<u>397</u>

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 21 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

	December 31, 2017					
	Carrying Amount	Contractual cash flows	Less than 1 year	2 years	3-5 years	More than 5 years
	€ in thousands					
Non-derivative financial liabilities						
Long term loans, including current maturities	44,864	48,506	4,313	4,861	14,744	24,588
Finance lease obligation including current maturities	4,020	4,987	483	483	1,449	2,572
Debentures	57,631	67,884	7,251	11,398	31,880	17,355
Trade payables and other accounts payable	2,990	2,990	2,990	-	-	-
	<u>109,505</u>	<u>124,367</u>	<u>15,037</u>	<u>16,742</u>	<u>48,073</u>	<u>44,515</u>
Derivative finance liabilities						
Forward contracts	2,650	2,650	-	-	2,650	-
Currency swap	1,244	1,244	(145)	75	446	868
Swap contracts	539	539	121	183	116	119
	<u>4,433</u>	<u>4,433</u>	<u>(24)</u>	<u>258</u>	<u>3,212</u>	<u>987</u>

E. Market risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The principal risks that the Company faces, as assessed by management, are as follows: a change in the regulation applicable to the area of activity, a change in the tariffs as approved by the relevant electricity authorities in the countries in which the Company operates, changes in the situation of the electricity and gas market, political and security events.

(1) Foreign currency risk

As a result of the Company's operations and presentation currency, the Company is exposed to the impact of exchange rate fluctuations of the EUR/USD and NIS/EUR on the Company's balance sheet.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 21 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Foreign currency risk (cont'd)

(a) The exposure to linkage and foreign currency risk

The Company's exposure to linkage and foreign currency risk except in respect of derivatives (see hereunder) was as follow:

	December 31, 2018				Total
	Non-monetary/ Non finance	NIS(*)	Unlinked € in thousands	EURO	
Current assets:					
Cash and cash equivalents	-	287	937	35,658	36,882
Marketable securities	-	-	2,132	-	2,132
Restricted cash short-term and restricted marketable securities	-	3,338	-	1,315	4,653
Asset from concession project	-	1,292	-	-	1,292
Trade and other receivables	1,279	780	531	10,033	12,623
Financial asset short-term	-	1,282	-	-	1,282
Non-current assets:					
Investments in equity accounted investees	21,175	6,571	-	-	27,746
Advances on account of investments in process	798	-	-	-	798
Concession intangible asset	4,882	-	-	-	4,882
Asset from concession project	-	25,710	-	-	25,710
Fixed assets	87,220	-	-	-	87,220
Restricted cash long-term	-	1,654	267	141	2,062
Deferred tax	2,423	-	-	-	2,423
Other assets	1,055	-	-	400	1,455
Current liabilities:					
Loans and borrowings	-	(1,622)	-	(4,242)	(5,864)
Short-term debentures	-	(8,758)	-	-	(8,758)
Accounts payable	-	(24)	-	(2,102)	(2,126)
Accrued expenses and other payables	-	(1,116)	-	(1,987)	(3,103)
Non-current liabilities:					
Long-term loans	-	(18,314)	-	(41,914)	(60,228)
Long-term debentures	-	(42,585)	-	-	(42,585)
Deferred tax	(6,219)	-	-	-	(6,219)
Other long-term liabilities	-	(19)	-	(5,301)	(5,320)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	112,613	(31,524)	3,867	(7,999)	76,957

(*) including items linked to CPI

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 21 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(a) The exposure to linkage and foreign currency risk (cont'd)

	December 31, 2017				Total
	Non-monetary/Non finance	NIS(*)	Unlinked	EURO	
	€ in thousands				
Current assets:					
Cash and cash equivalents	-	2,723	11,742	9,497	23,962
Marketable securities	-	-	2,162	-	2,162
Restricted cash short-term and restricted marketable securities	-	-	3,250	15	3,265
Asset from concession project	-	1,286	-	-	1,286
Trade and other receivables	548	3,359	731	6,007	10,645
Financial asset short-term	-	1,249	-	-	1,249
Non-current assets:					
Investments in equity accounted investees	17,171	10,484	-	-	27,655
Advances on account of investments in process	8,825	-	-	-	8,825
Concession intangible asset	5,505	-	-	-	5,505
Asset from concession project	-	27,725	-	-	27,725
Fixed assets	78,837	-	-	-	78,837
Restricted cash long-term	-	1,797	351	1,512	3,660
Deferred tax	1,777	-	-	-	1,777
Other assets	1,122	-	-	413	1,535
Current liabilities:					
Loans and borrowings	-	(1,455)	-	(1,648)	(3,103)
Short-term debentures	-	(4,644)	-	-	(4,644)
Accounts payable	-	7	-	(1,356)	(1,349)
Accrued expenses and other payables	-	(811)	-	(1,376)	(2,187)
Non-current liabilities:					
Finance lease obligations	-	-	-	(3,690)	(3,690)
Long-term loans	-	(20,141)	-	(21,950)	(42,091)
Long-term debentures	-	(52,987)	-	-	(52,987)
Deferred tax	(5,982)	-	-	-	(5,982)
Other long-term liabilities	-	(4)	-	(4,551)	(4,555)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	107,803	(31,412)	18,236	(17,127)	77,500

(*) including items linked to CPI

Note 21 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(a) The exposure to linkage and foreign currency risk (cont'd)

Information regarding significant exchange rates:

	For the year ended December 31			
	Rate of Change		Rate of Change	
	%	Dollar	%	NIS
1 euro in 2018	(4.4)	1,145	3.3	4,292
1 euro in 2017	13.9	1,198	2.7	4,153

(b) Sensitivity analysis

A change as at December 31 in the exchange rates of the following euro against the USD and euro against the NIS, as indicated below would have increased (decreased) equity by the amounts shown below (after tax). This analysis is based on foreign currency exchange rate that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2018	
	Increase	Decrease
	Equity	Equity
	€ thousands	
Change in the exchange rate of:		
5% in the USD	169	(169)
5% in NIS	(367)	367

	December 31, 2017	
	Increase	Decrease
	Equity	Equity
	€ thousands	
Change in the exchange rate of:		
5% in the USD	761	(761)
5% in NIS	(378)	378

Note 21 - Financial Instruments (cont'd)

E. Market risk (cont'd)

Interest rate risk

The Company is exposed to changes in fair value, as a result of changes in interest rate in connection with its loans and borrowings. The debt instruments of the Company bear interest at variable rates.

Sensitivity analysis

A change in interest rate would have increased (decreased) profit or loss by the amounts shown below:

	December 31,	
	2018	2017
	Profit or loss	Profit or loss
	€ in thousands	
Increase of 1%	1,012	804
Increase of 3%	2,604	2,473
Decrease of 1%	(581)	(863)
Decrease of 3%	(2,172)	(2,532)

F. Fair value

(1) Fair values versus carrying amounts

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, other accounts receivables, pledged deposits, financial derivatives credit from banks and trade payables and other accounts payables are the same or proximate to their fair value.

The fair values of the other financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	December 31, 2018				Valuation techniques for determining fair value	Inputs used to determine fair value
	Carrying amount	Fair value				
		Level 1	Level 2	Level 3		
	€ in thousands					
Non-current liabilities:						
Debentures	51,343	49,190	-	-		
Loans from banks and others (including current maturities)					Discounting future cash flows by the market interest rate on the date of measurement.	Discount rate of Euribor+ 2.53%, Discount rate of Euribor+ 1.85%, fix rate for 5 years 2.9%-3.1% and 4.65% Linkage to Consumer price index in Israel
	66,092	-	66,233	-		
	117,435	49,190	66,233	-		

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(1) Fair values versus carrying amounts (Cont'd)

	December 31, 2017					
	Carrying amount	Fair value			Valuation techniques for determining fair value	Inputs used to determine fair value
		Level 1	Level 2	Level 3		
		€ in thousands				
Non-current liabilities:						
Debentures	57,631	60,518	-	-		
Loans from banks and others (including current maturities)	44,864	-	45,561	-	Discounting future cash flows by the market interest rate on the date of measurement. Discount rate of Euribor+ 2.53% and Linkage to Consumer price index in Israel	
Finance lease obligations (including current maturities)	4,020	-	4,209	-	Discounting future cash flows by the market interest rate on the date of measurement. Discount rate of Euribor+ 2.85%	
	106,515	60,518	49,770	-		

(2) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	December 31	
	2018	2017
	%	
Non-current liabilities:		
Loans from banks	Euribor+ 2.53%	Euribor+ 2.53%
Loans from banks	4.65% Linkage to Consumer price index in Israel	4.65% Linkage to Consumer price index in Israel
Loans from banks	Euribor+ 1.85%	-
Loans from banks	fix rate for 5 years 2.9% - 3.1%	-
Finance lease obligations	-	Euribor+ 2.85%

(3) Fair values hierarchy

The financial instruments presented at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of data used in the measurement:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (unobservable inputs).

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(3) Fair values hierarchy (Cont'd)

	December 31, 2018				Valuation techniques for determining fair value
	Level 1	Level 2	Level 3	Total	
	€ in thousands				
Income receivable in connection with the A.R.Z. electricity pumped storage project (see Note 6)	-	-	1,282	1,282	The fair value of the income receivable in connection with the A.R.Z. electricity pumped storage project was calculated according to the cash flows expected to be received in 4.5 years following the financial closing of the project, discounted at a weighted interest rate of 2.36% reflecting the credit risk of the debtor.
Marketable securities	-	2,132	-	2,132	Market price
Forward contracts	-	977	-	977	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Swap contracts	-	632	-	632	Fair value is measured by discounting the future cash flows, over the period of the contract and using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Currency swap	-	2,117	-	2,117	Fair value is measured by discounting the future cash flows, over the period of the contract and using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Dori loan	-	-	9,189	9,189	The fair value is measured by discounting the expected future loan repayments and using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
			9,189	9,189	

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(3) Fair values hierarchy (Cont'd)

	December 31, 2017				Valuation techniques for determining fair value
	Level 1	Level 2	Level 3	Total	
	€ in thousands				
Income receivable in connection with the A.R.Z. electricity pumped storage project (see Note 6)	-	-	1,249	1,249	The fair value of the income receivable in connection with the A.R.Z. electricity pumped storage project was calculated according to the cash flows expected to be received in 4.5 years following the financial closing of the project, discounted at a weighted interest rate of 2.36% reflecting the credit risk of the debtor.
Marketable securities	-	5,412	-	5,412	Market price
Forward contracts	-	2,650	-	2,650	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Swap contracts	-	539	-	539	Fair value is measured by discounting the future cash flows, over the period of the contract and using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.
Currency swap	-	1,244	-	1,244	Fair value is measured by discounting the future cash flows, over the period of the contract and using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.

Note 21 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(4) Level 3 financial instruments carried at fair value

The table hereunder presents reconciliation from the beginning balance to the ending balance of financial instruments carried at fair value in level 3 of the fair value hierarchy:

	Financial assets
	Income receivable in connection with the A.R.Z. electricity pumped storage project
	€ in thousands
Balance as at December 31, 2016	1,265
Total income recognized in profit or loss	17
Exercise of first option to acquire additional shares	-
Foreign Currency translation adjustments	(33)
Balance as at December 31, 2017	1,249
Total income recognized in profit or loss	73
Exercise of second option to acquire additional shares	-
Foreign Currency translation adjustments	(40)
Balance as at December 31, 2018	1,282
	Asset from concession project
	Income receivable in connection with the concession project
	€ in thousands
Balance as at December 31, 2017	29,011
Total income recognized in profit or loss	1,949
Proceeds from asset from concession project	(3,040)
Foreign Currency translation adjustments	(918)
Balance as at December 31, 2018	27,002

Note 22 - Operating Segments

The Company presented the results of its reportable segments starting the current reporting period, in view of the Company's recent entry into additional operations such as the Bio Gas in the Netherlands resulting in separate segment reporting reviewed and analyzed by the CODM. Comparison figures were presented accordingly.

The Company's reportable segments, which form the Company's strategic business units, are described below:

- Photovoltaic power plants (PV Plants) – Operation of installations that convert the energy in sunlight into electrical energy. Approximately 22.6MWp aggregate installed capacity of photovoltaic power plants in Italy, approximately 7.9MWp aggregate installed capacity of photovoltaic power plants in Spain and a photovoltaic power plant of approximately 9 MWp installed capacity in Israel. Also, Talasol Solar S.L.U which is promoting the construction of a photovoltaic plant with a peak capacity of 300 MW in the municipality of Talaván, Cáceres, Spain.
- Dorad Energy Ltd. (Dorad) – 9.375% indirect interest in Dorad, which owns and operates a combined cycle power plant based on natural gas, with production capacity of approximately 850 MW, located south of Ashkelon, Israel.
- Anaerobic digestion plants (Bio Gas) – 51% of Groen Gas Goor B.V. and of Groen Gas Oude-Tonge B.V., project companies developing and operating anaerobic digestion plants with a green gas production capacity of approximately 375 Nm³/h, in Goor, the Netherlands and 475 Nm³/h, in Oude Tonge, the Netherlands, respectively.
- Pumped storage hydro power plant (Manara) – 75% of a project to construct a 156 MW pumped storage hydro power plant in the Manara Cliff, Israel.

Factors that management used to identify the Company's reportable segments

The Company's strategic business units offer different products and the allocation of resources and evaluation of performance is managed separately because they require different technology.

For each of the strategic business units, the Company's chief operating decision maker (CODM) reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Company's operating segments.

The Company presented the photovoltaic power plants per geographical areas, as the information collected and analyzed by the CODM in connection with the PV Plants is presented based on the physical location of the PV Plant. The CODM reviews the Israeli Shekel denominated information on Dorad and the PV Plant located in Israel and the information presented in the tables below is translated into euro. The CODM reviews the company's share in the results of Dorad. In the reports analyzed by the CODM, the PV Plant located in Israel is presented under the fixed asset model and not under the financial asset model as per IFRIC 12.

Performance is measured based on segment gross profit as included in reports that are regularly reviewed by the chief operating decision maker. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 22 - Operating Segments (cont'd)

Segment assets consist of current assets and fixed assets, as included in reports provided regularly to the chief operating decision maker.

	PV							Total reportable segments	Reconciliations	Total consolidated
	Italy	Spain	Israel	Talasol	Bio Gas	Dorad	Manara			
For the year ended December 31, 2018										
€ in thousands										
Revenues	9,560	3,033	4,011	-	4,483	58,063	-	79,150	(61,033)	18,117
Operating expenses	(1,579)	(574)	(507)	-	(3,682)	(44,600)	-	(50,942)	44,600	(6,342)
Depreciation expenses	(3,569)	(828)	(2,042)	-	(1,081)	(4,811)	-	(12,331)	6,515	(5,816)
Gross profit (loss)	4,412	1,631	1,462	-	(280)	8,652	-	15,877	(9,918)	5,959
Project development costs									(2,878)	(2,878)
General and administrative expenses									(3,600)	(3,600)
Share of profits (loss) of equity accounted investee									2,545	2,545
Other income, net									884	884
Operating profit										2,910
Financing income									2,936	2,936
Financing income (expenses) in connection with derivatives, net									494	494
Financing expenses, net									(5,521)	(5,521)
Profit before taxes on Income										819
Segment assets as at December 31, 2018	54,539	16,799	34,258	15,169	18,879	105,246	2,318	247,208	(36,048)	211,160

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 22 - Operating Segments (cont'd)

	PV						Total Reportable Segments	Reconciliations	Total consolidated
	Italy	Spain	Israel	Dorad	Bio Gas	Manara			
For the year ended December 31, 2017									
€ in thousands									
Revenues	10,143	3,007	1,378	58,234	303	-	73,065	(59,429)	13,636
Operating expenses	(1,660)	(677)	(117)	(45,027)	(95)	-	(47,576)	45,027	(2,549)
Depreciation expenses	(3,567)	(828)	(447)	(4,817)	(111)	-	(9,770)	5,252	(4,518)
Gross profit	4,916	1,502	814	8,390	97	-	15,719	(9,150)	6,569
Project development costs								(2,739)	(2,739)
General and administrative expenses								(2,420)	(2,420)
Share of profits (loss) of equity accounted investee								1,531	1,531
Other income, net								18	18
Operating Profit									2,959
Financing income								1,333	1,333
Financing income (expenses) in connection with derivatives, net								(3,156)	(3,156)
Financing expenses, net								(7,405)	(7,405)
Loss before taxes on Income									(6,269)
Segment assets as at December 31, 2017	59,441	16,779	37,903	114,282	16,882	2,386	247,673	(49,586)	198,087

Notes to the Consolidated Financial Statements as at December 31, 2018

Note 22 - Operating Segments (cont'd)

	PV						Total reportable segments	Reconciliations	Total consolidated
	Italy	Spain	Israel	Dorad	Bio Gas	Manara			
	For the year ended December 31, 2016								
	€ in thousands								
Revenues	8,919	2,713	-	50,730	-	-	62,362	(50,730)	11,632
Operating expenses	(1,518)	(564)	-	(39,628)	-	-	(41,710)	39,628	(2,082)
Depreciation expenses	(3,566)	(828)	-	(4,612)	-	-	(9,006)	4,595	(4,411)
Gross profit	3,835	1,321	-	6,490	-	-	11,646	(6,507)	5,139
Project development costs								(2,201)	(2,201)
General and administrative expenses								(2,032)	(2,032)
Share of pro loss of equity accounted investee								1,375	1,375
Other income, net								90	90
Operating Profit									2,371
Financing income								263	263
Financing income (expenses) in connection with derivatives, net								636	636
Financing expenses, net								(3,333)	(3,333)
Loss before taxes on Income									(63)
Segment assets as at December 31, 2016	62,099	17,321	-	117,047	8,360	380	205,207	(56,743)	148,464

Geographical information

The Company is domiciled in Israel and it operates in Israel, Italy and in Spain through its subsidiaries that own seventeen PV Plants, in the Netherlands through its subsidiaries that own anaerobic digestion plants and also in Israel through Dori Energy.

The following table lists the revenues from the Company's operations in Israel, the Netherlands, Italy and Spain:

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Israel	1,041	183	-
The Netherlands	4,483	303	-
Italy	9,560	10,143	8,919
Spain	3,033	3,007	2,713
Total revenues	18,117	13,636	11,632

Note 22 - Operating Segments (cont'd)**Geographical information (cont'd)**

The following table lists the fixed assets, net from the Company's operation:

	For the year ended December	
	31	
	2018	2017
	€ in thousands	
Israel	17	22
The Netherlands	17,464	15,046
Italy	44,986	48,555
Spain	24,753	15,214
Total fixed assets, net	<u>87,220</u>	<u>78,837</u>

Note 23 - Subsequent Events

- In March 2019, the Company executed an agreement (the "Ludan Acquisition Agreement"), with Ludan and several entities affiliated with Ludan, for the acquisition by Ellomay Luxemburg of 49% of Groen Goor and Goren Gas Oude-Tonge. As the Company currently indirectly owns 51% of the WtE projects operated by these companies, following consummation of the acquisition contemplated by the Ludan Acquisition Agreement, the Company will indirectly wholly-own these projects in their entirety. The consummation of the acquisition contemplated by the Ludan Acquisition Agreement is subject to customary conditions, including the approval of the financing bank of the WtE projects. The Ludan Acquisition Agreement also provides for the immediate (and unconditional) termination of the operations and maintenance arrangement of the WtE projects with Ludan's affiliates effective as of January 27, 2019.
- On March 12, 2019, four of the Company's Spanish subsidiaries (together, hereinafter – the "Subsidiaries") entered into a €18.4 million facility agreement (the "Facility Agreement") with term ending in December 31, 2037. The loans provided under the Facility Agreement bear an annual interest rate equal to the Euribor 6 month rate plus a margin of 200 basis points (with a zero interest floor) and are repaid semi-annually. The Facility Agreement provides for mandatory prepayment upon the occurrence of certain events and includes customary terms, including requirements to maintain financial ratios, various securities provided by the Subsidiaries and a pledge on the shares of the Subsidiaries.

In connection with the Facility Agreement, on March 12, 2019, the Subsidiaries entered into interest swap agreements for an amount of approximately euro 17.6 million (with a decreasing notional principal amount based on the amortization table) until December 2037, replacing the Euribor 6 month rate with a fixed interest rate of approximately 1%, resulting in a fixed annual interest rate of approximately 3%.

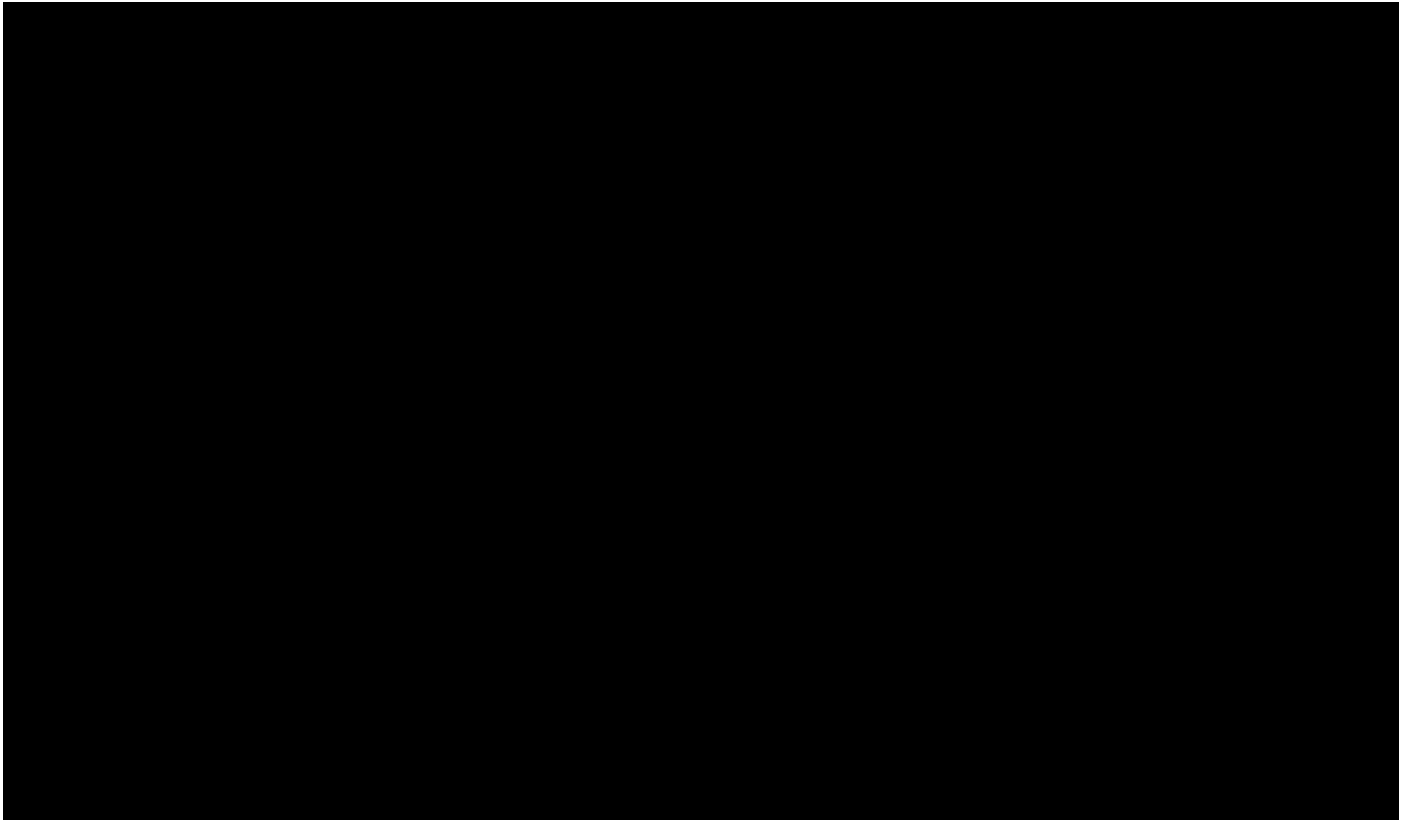
- In March 2019, following Ellomay PS's request to extend certain dates and deadlines in the conditional license granted to it due to the continuation of the planning procedures in the National Infrastructure Committee and the Israel Land Authority, the Israeli Electricity Authority resolved to extend certain deadlines and dates set forth in the conditional license held by Ellomay PS. The extensions include, among others: (i) an extension of the term of the conditional license by 24 months to 96 months, (ii) an extension of the deadline for obtaining a building permit by 3 months to 33 months commencing upon the effective date of the conditional license, and (iii) an extension of the deadline for financial closing by 12 months to 42 months commencing upon the effective date of the conditional license. The Israeli Electricity Authority's resolution will become effective following the receipt of the approval of the Israeli Minister of National Infrastructures, Energy and Water, or the Minister, and is also subject to the forfeiture of a bank guarantee provided by Ellomay PS in the amount of approximately NIS 2,145 thousand (approximately €500 thousand) and of an additional amount of approximately NIS 1,000 thousand (approximately €230 thousand) out of bank guarantees Ellomay PS will be required to provide in connection with the extension.

Dorad Energy Ltd.

Financial Statements

As at December 31, 2018

Financial Statements as at December 31, 2018

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Independent Auditors' Report

The Board of Directors
Dorad Energy Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Dorad Energy Ltd., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of profit or loss, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dorad Energy Ltd. as of December 31, 2018 and 2017, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Israel)
Member Firm of KPMG International

Tel Aviv
February 24, 2019

Statements of Financial Position

	Note	December 31 2018 NIS thousands	December 31 2017 NIS thousands
Current assets			
Cash and cash equivalents	4	117,220	184,182
Trade receivables		297,997	330,397
Other receivables	5	56,417	83,289
Financial derivatives		387	-
Total current assets		472,021	597,868
Non-current assets			
Restricted deposit	11A1B	431,096	405,306
Prepaid expenses	11A2, 11A5	41,704	43,821
Fixed assets	6	3,869,800	4,009,008
Intangible assets		3,265	6,097
Total non-current assets		4,345,865	4,464,232
Total assets		4,817,886	5,062,100
Current liabilities			
Current maturities of loans from banks	7	217,254	203,819
Current maturity of loans from related parties	9	17,805	140,464
Trade payables		340,829	415,798
Other payables	8	5,966	5,649
Financial derivatives		-	1,191
Total current liabilities		581,854	766,921
Non-current liabilities			
Loans from banks	7	3,016,582	3,187,873
Loans from related parties	9	-	54,764
Provision for dismantling and restoration		35,497	36,239
Deferred tax liabilities, net	10	122,803	89,298
Liabilities for employee benefits, net		160	160
Total non-current liabilities		3,175,042	3,368,334
Equity			
Share capital	12	11	11
Share premium		642,199	642,199
Capital reserve for activities with controlling shareholders		3,748	3,748
Retained earnings		415,032	280,887

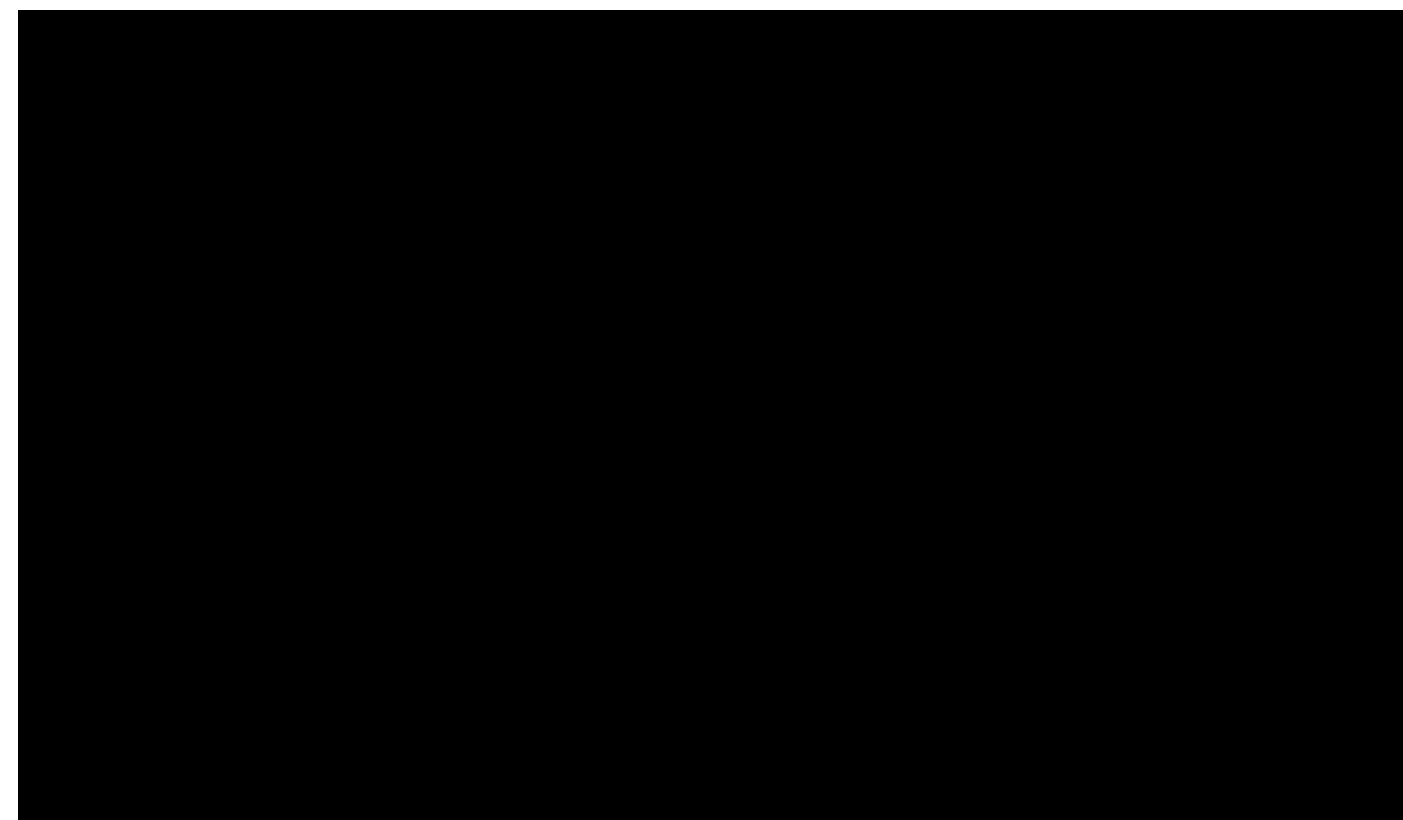
Total equity	1,060,990	926,845
Total liabilities and equity	4,817,886	5,062,100

<u>/s/ Erez Halfon</u>	<u>/s/ Eli Asulin</u>	<u>/s/ David Bitton</u>
Erez Halfon	Eli Asulin	David Bitton
Chairman of the	Chief Executive Officer	Chief Financial Officer
Board of Directors		

Date of approval of the financial statements February 24, 2019

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

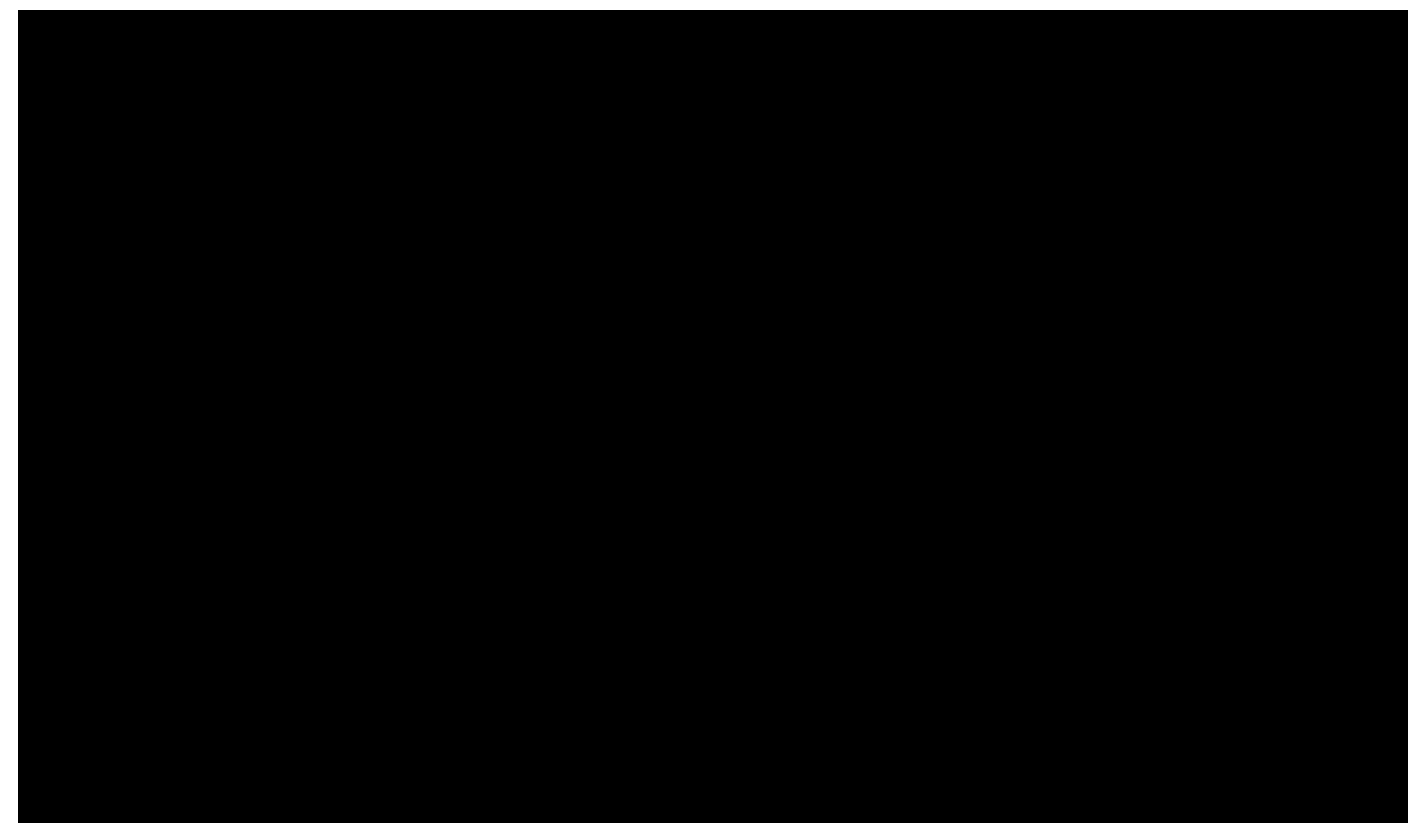
Statements of Profit or Loss



	Note	Year ended December 31,		
		2018	2017	2016
		NIS thousands	NIS thousands	NIS thousands
Revenues		2,628,607	2,523,263	2,299,565
Operating costs of the power plant				
Energy costs		687,431	616,221	550,401
Electricity purchase and infrastructure services		1,194,948	1,212,431	1,104,826
Depreciation and amortization		217,795	208,705	209,057
Other operating costs		136,705	122,345	141,132
Total cost of power plant		2,236,879	2,159,702	2,005,416
Profit from operating the power plant		391,728	363,561	294,149
General and administrative expenses	13	20,740	18,712	19,178
Operating profit		370,988	344,849	274,971
Financing income		24,650	3,195	7,025
Financing expenses		227,988	245,122	226,054
Financing expenses, net	14	203,338	241,927	219,029
Profit before taxes on income		167,650	102,922	55,942
Taxes on income	10	33,505	23,681	4,736
Profit for the year		134,145	79,241	51,206

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

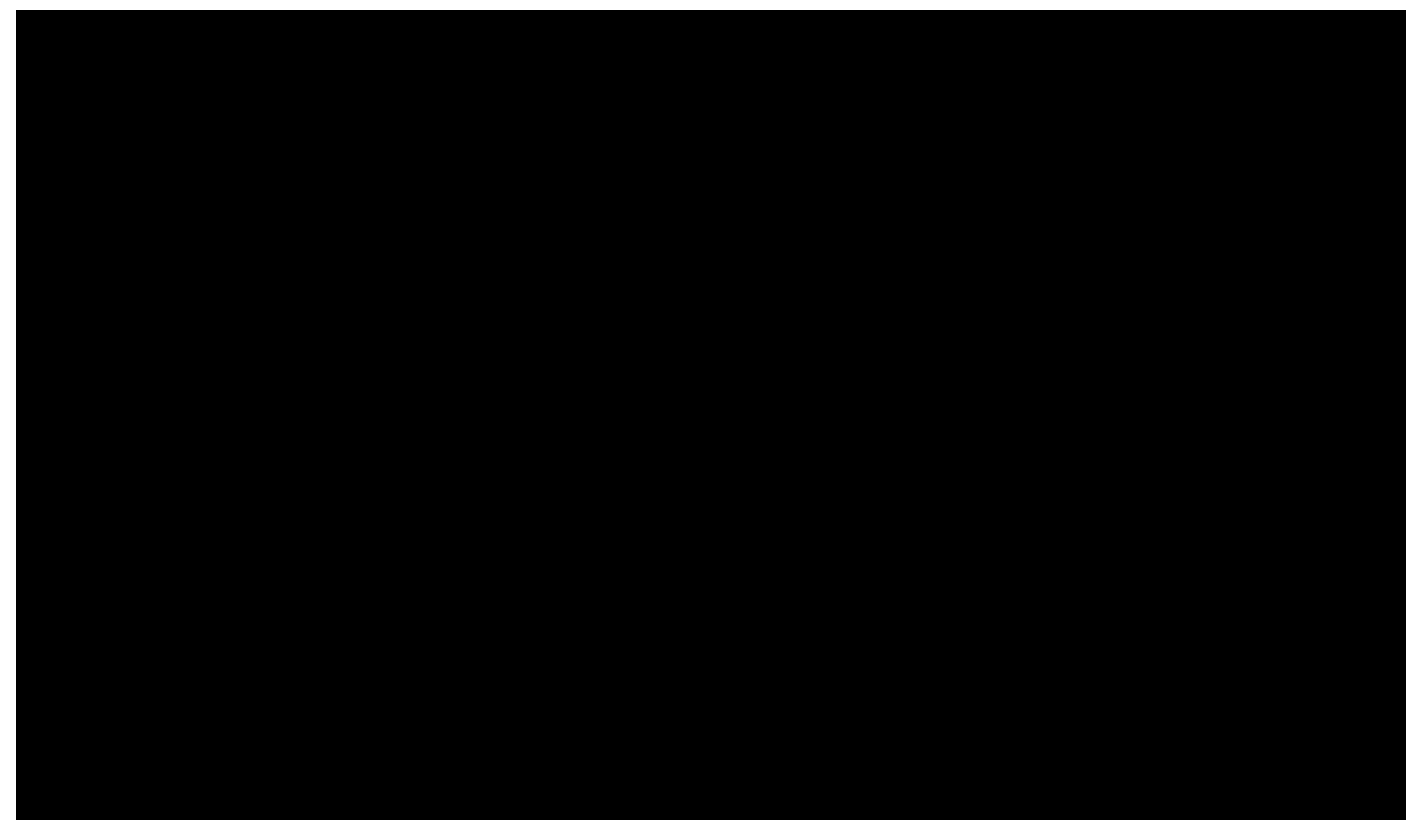
Statements of Changes in Equity



	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve for activities with controlling shareholders</u>	<u>Retained earnings</u>	<u>Total equity</u>
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the year ended December 31, 2018	11	642,199	3,748	280,887	926,845
Balance as at January 1, 2018					
Profit for the year	-	-	-	134,145	134,145
Balance as at December 31, 2018	<u>11</u>	<u>642,199</u>	<u>3,748</u>	<u>415,032</u>	<u>1,060,990</u>
For the year ended December 31, 2017					
Balance as at January 1, 2017	11	642,199	3,748	201,646	847,604
Profit for the year	-	-	-	79,241	79,241
Balance as at December 31, 2017	<u>11</u>	<u>642,199</u>	<u>3,748</u>	<u>280,887</u>	<u>926,845</u>
For the year ended December 31, 2016					
Balance as at January 1, 2016	11	642,199	3,748	150,440	796,398
Profit for the year	-	-	-	51,206	51,206
Balance as at December 31, 2016	<u>11</u>	<u>642,199</u>	<u>3,748</u>	<u>201,646</u>	<u>847,604</u>

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

Statements of Cash Flows

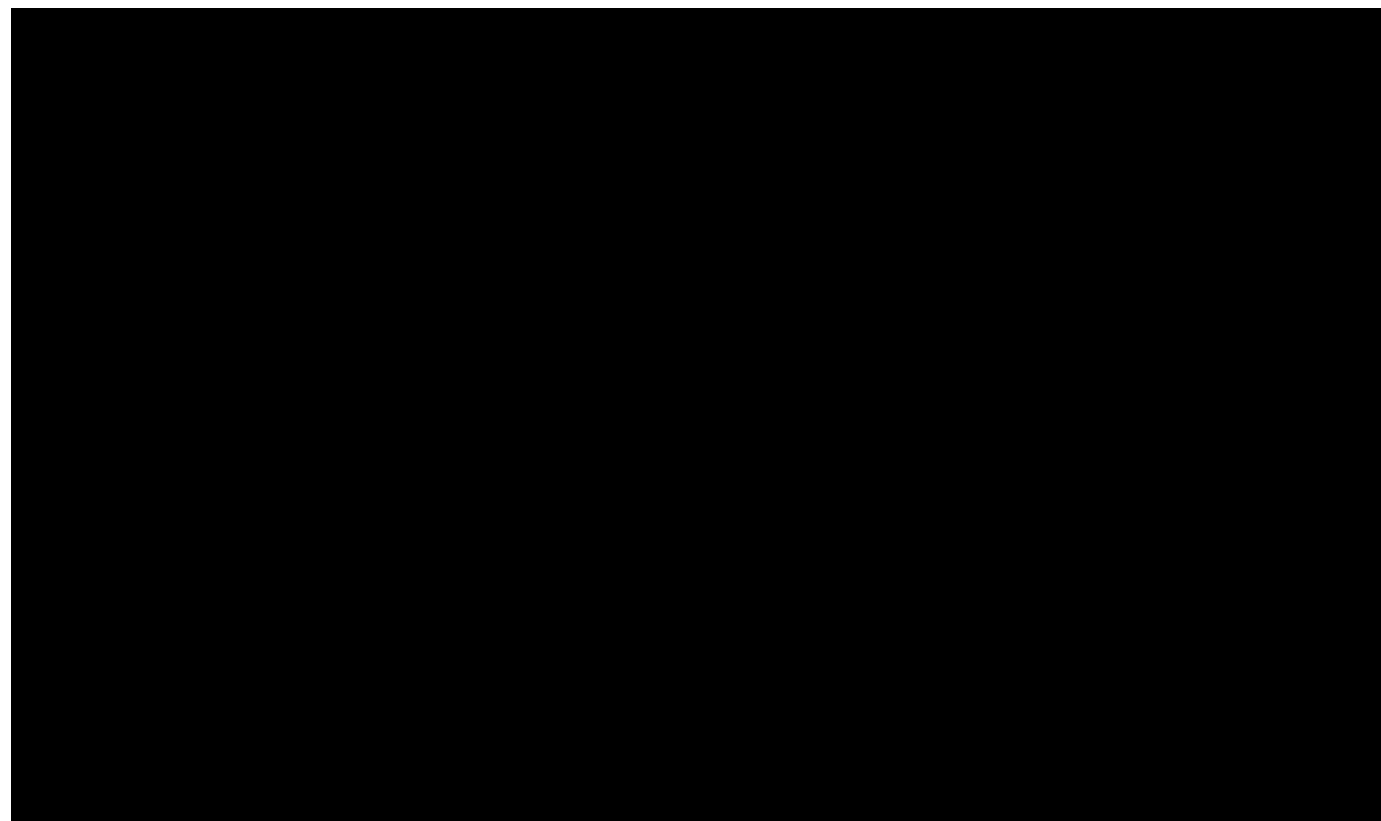


	Year ended December 31,		
	2018	2017	2016
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Profit for the year	134,145	79,241	51,206
Adjustments:			
Depreciation, amortization and fuel consumption	223,028	286,542	238,484
Taxes on income	33,505	23,681	4,736
Financing expenses, net	203,338	241,927	219,029
	<u>459,871</u>	<u>552,150</u>	<u>462,249</u>
Change in trade receivables	32,536	(35,465)	(14,761)
Change in other receivables	6,119	(84,857)	(5,179)
Change in trade payables	(81,273)	123,045	48,807
Change in other payables	304	(2,669)	677
	<u>(42,314)</u>	<u>54</u>	<u>29,544</u>
Net cash provided by operating activities	<u>551,702</u>	<u>631,445</u>	<u>542,999</u>
Cash flows from investing activities:			
Proceeds from (payment for) settlement of financial derivatives	9,957	(10,596)	(2,017)
Release of pledged deposits	-	-	29,486
Insurance proceeds in respect of damage to fixed asset	20,619	38,742	-
Investment in long-term restricted deposits	(12,158)	(34,000)	(143,891)
Release of long-term restricted deposit	-	25,790	70,000
Long-term prepaid expenses	-	-	(1,056)
Investment in fixed assets	(79,855)	(121,361)	(25,415)
Investment in intangible assets	(222)	(413)	(2,804)
Interest received	3,497	1,268	624
	<u>(58,162)</u>	<u>(100,570)</u>	<u>(75,073)</u>
Net cash used in investing activities	<u>(58,162)</u>	<u>(100,570)</u>	<u>(75,073)</u>
Cash flows from financing activities:			
Receipt of long-term loans from related parties	-	-	16,689
Receipt of long-term loans from banks	-	-	242,772
Repayment of loans from related parties	(160,326)	(39,628)	(147,219)
Repayment of loans from banks	(181,970)	(161,668)	(143,896)
Interest paid	(220,765)	(227,530)	(408,071)
	<u>(563,061)</u>	<u>(428,826)</u>	<u>(439,725)</u>
Net cash used in financing activities	<u>(563,061)</u>	<u>(428,826)</u>	<u>(439,725)</u>

Net increase (decrease) in cash and cash equivalents	<u>(69,521)</u>	<u>102,049</u>	<u>28,201</u>
Effect of exchange rate fluctuations on cash and cash equivalents	2,559	1,166	872
Cash and cash equivalents at beginning of year	<u>184,182</u>	<u>80,967</u>	<u>51,894</u>
Cash and cash equivalents at end of year	<u>117,220</u>	<u>184,182</u>	<u>80,967</u>

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

Notes to the Financial Statements as at December 31, 2018



Note 1 - General

A. Reporting entity

Dorad Energy Ltd. (hereinafter - "the Company") was incorporated on November 25, 2002, with the aim of engaging in the production of electricity and construction of the infrastructure required for said operation.

The company's shareholders:

Eilat Ashkelon Infrastructure Services Ltd. (hereinafter – EAIS) – 37.5%
 Zorlu Enerji Elektrik Uretim A.S (a foreign company) (hereinafter – Zorlu) – 25%
 U. Dori Energy Infrastructures Ltd. (hereinafter – Dori Energy) – 18.75%
 Edelcom Ltd. (hereinafter – Edelcom) – 18.75%

B. Definitions

In this financial statement

- Related party as defined in International Accounting Standard (2009) 24 regarding related parties.
- Interested parties Within their meaning in Paragraph (1) of the definition of an "interested party" in Section 1 of the Securities Law - 1968.
- All references to laws, regulations, court proceedings refer to the State of Israel, unless otherwise indicated.

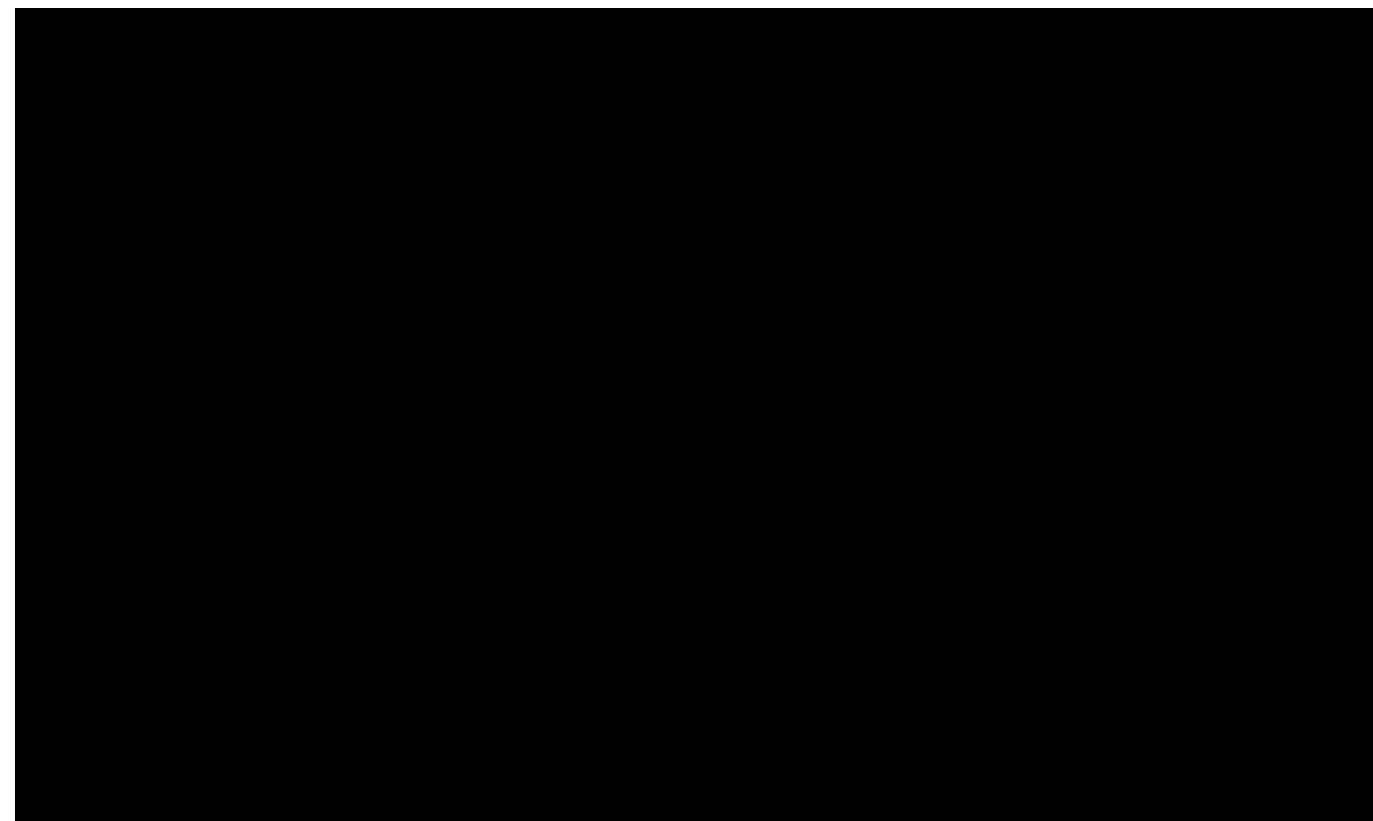
C. Licenses and legal environment

1. The construction of the power plant was officially designated a "National Infrastructure" Project, as defined in paragraph 1 of the Planning and Building Law-1965 by the Prime Minister, Minister of Finance and Minister of the Interior. In July 2009, the Licensing Authority of the National Planning and Construction Board for National Infrastructures approved the building permit for the establishment of a power station. (Building License No. 2-01-2008).

On April 13, 2014 the Public Utilities Authority - Electricity ("PUA") passed a resolution of which a permanent production license and a supply license will be granted to the Company, subject to the approval of the Minister of National Infrastructure, Energy and Water ("Minister of Energy"). Accordingly, on May 12, 2014 the Company was issued production licenses for 20 years with an option for additional period of extension and a supply license for one year and on May 19, 2014 the Company began commercial operation of the station.

On August 12, 2014 the Company filed a request to extend the supply license for an additional 19 years. On July 13, 2015, after the Company filed a petition with the High Court of Justice against the Minister of National Infrastructures and the Public Electricity Services Authority for issuance of a conditional order that will require extending the license for the said period, the license was received, which is effective up to May 11, 2034.

Notes to the Financial Statements as at December 31, 2018



Note 1 – General (cont'd)

C. Licenses and legal environment (cont'd)

2. On December 19, 2016 the PUA published a summary decision regarding “Electricity Rates for Customers of IEC in 2016” which in accordance the average production component was reduced by about 0.5% as from January 1, 2017 and will remain in effect to the end of 2017. The effect of this update on the report was insignificant.

On January 15, 2018 the PUA published a decision regarding “Electricity Rates for Customers of IEC in 2018” which in accordance the average production component will increase by about 6% from January 15, 2018 and will remain in effect to the end of 2018. On December 24, 2018 the PUA published a decision regarding “Electricity Rates for Customers of IEC in 2019” which in accordance the average production component will increase by about 3% from January 1, 2019 and will remain in effect to the end of 2019, the production component is conditional on the reduction of the excise tax on coal guarantee by the Ministry of Finance.

Note 2 - Basis of Preparation

A. Declaration of compliance with international financial reporting standards.

These financial statements have been prepared by the Company, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Company’s Board of Directors on February 24, 2019.

B. Functional and presentation currency

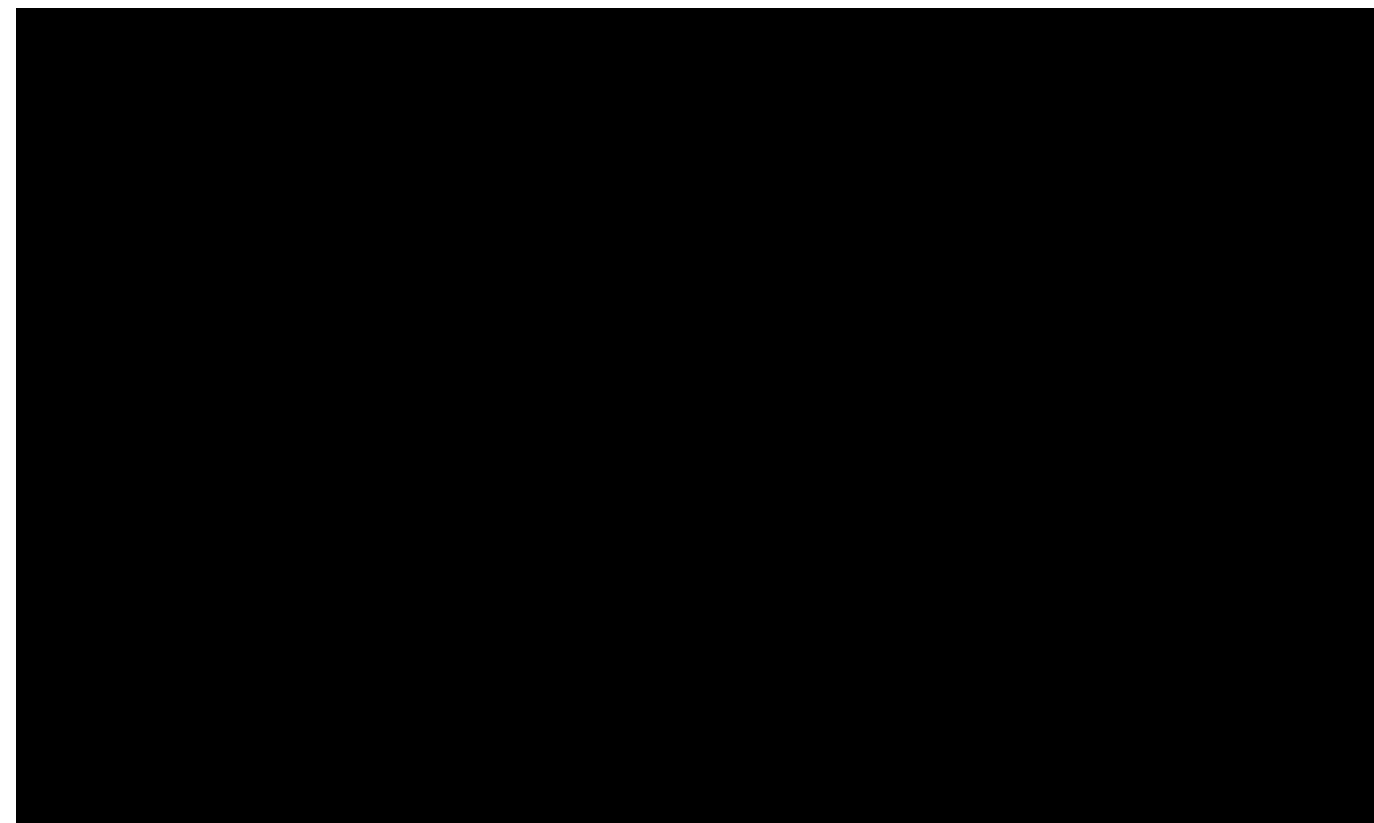
These financial statements are presented in NIS, which is the Company’s functional currency, and have been rounded to the nearest thousand. The NIS is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- Derivative financial instruments at fair value through profit or loss;
- Deferred tax liabilities
- Provisions

For further information regarding the basis of measurement of the above assets and liabilities, see Note 3, regarding Significant Accounting Policies.

**Note 2 - Basis of Preparation (cont'd)****D. Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions made by the Company with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year.

Useful lives of fixed assets and residual value

On May 19, 2014 the construction of the power plant was completed and is available for use as of this date and therefore as of this date, the depreciation of the power plant began. Accordingly, the Company examined the useful life of each significant item of fixed assets as described in Note 3C below considering the expected residual value at the end of the useful life. The estimated residual value, depreciation method and useful life, will be evaluated by the Company, at least once per reporting year and adjusted when necessary. Regarding the change in the useful life of the maintenance component in the fixed assets see note 11(14).

Impairment of assets

The Company examines at the end of each reporting year whether there have been any events or changes in circumstances that indicate impairment of fixed assets. When indication of impairment revealed the company checks whether the carrying amount of the fixed assets is recoverable out of the discounted cash flows expected from that asset or the fair value of the asset less selling costs ("net selling price") of that asset, and if necessary an impairment provision is recorded up to the amount that is recoverable.

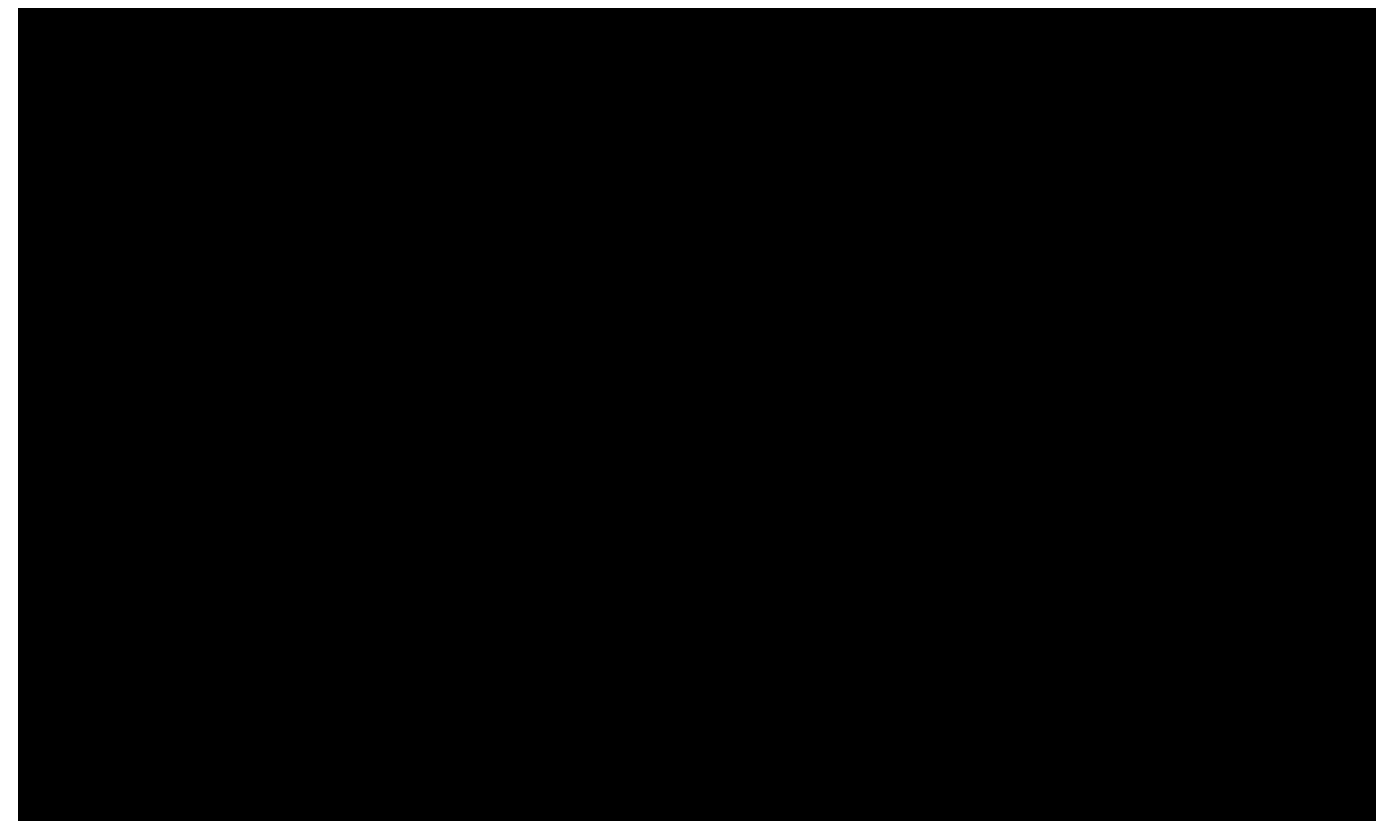
Assessment of the probability of contingent liabilities

The Company creates provisions or reverses provisions in respect of contingent liabilities Among other things, based on the premise whether it is more likely than not Released financial resources in respect of the commitments.

E. Operating cycle period

The Company's normal operating cycle is one year. As a result, current assets and current liabilities include items whose exercise date will take place in the Company's normal operating cycle.

The accounting policies set out below have been applied consistently for all periods presented in these financial statements.



Note 2 - Basis of Preparation (cont'd)

F. Initial implementation of new standards and interpretations

1. International Financial Reporting Standard IFRS 9 (2014), Financial Instruments

Commencing on January 1, 2018, the Company applies IFRS 9, Financial Instruments (hereinafter - the Standard), which replaced IAS 39 Financial Instruments: Recognition and Measurement. The Company has elected to apply the Standard, effective January 1, 2018, without adjusting the comparative figures. The implementation of the Standard had no effect on the financial statements.

Classification and measurement of financial assets and financial liabilities

The Standard includes three classification groups for financial assets: amortized cost, fair value through profit or loss and fair value through other comprehensive income. In general, classification of financial assets in accordance with IFRS 9 is based on the Company's business model for the management of financial assets, as well as on the contractual cash flow characteristics of the financial assets. The Standard eliminates the previous classification groups included in IAS 39: Held-to-maturity investments, loans and receivables and financial assets available for sale. The Standard does not significantly change the Instructions of IAS 39 regarding the classification and measurement of financial liabilities.

The Standard change the impairment model of IAS 39 in the expected credit loss model. The model applies to financial assets measured at amortized cost, investments in debt instruments measured at fair value through other comprehensive income and does not apply to investments in equity instruments.

For information on changes in the principal accounting policies of the Company that occurred as a result of application of the Standard, see Note 3.B, E.

2. International Financial Reporting Standard IFRS 15, Revenue from Contracts with Customers

Commencing on January 1, 2018, the Company has adopted, for the first time, International Financial Reporting Standard 15 ("the Standard"), which prescribes guidelines for the recognition of income. The Standard establishes two approaches to income recognition: at one-point of time or over time.

The Standard presents a new model for revenue recognition with five step customer contracts:

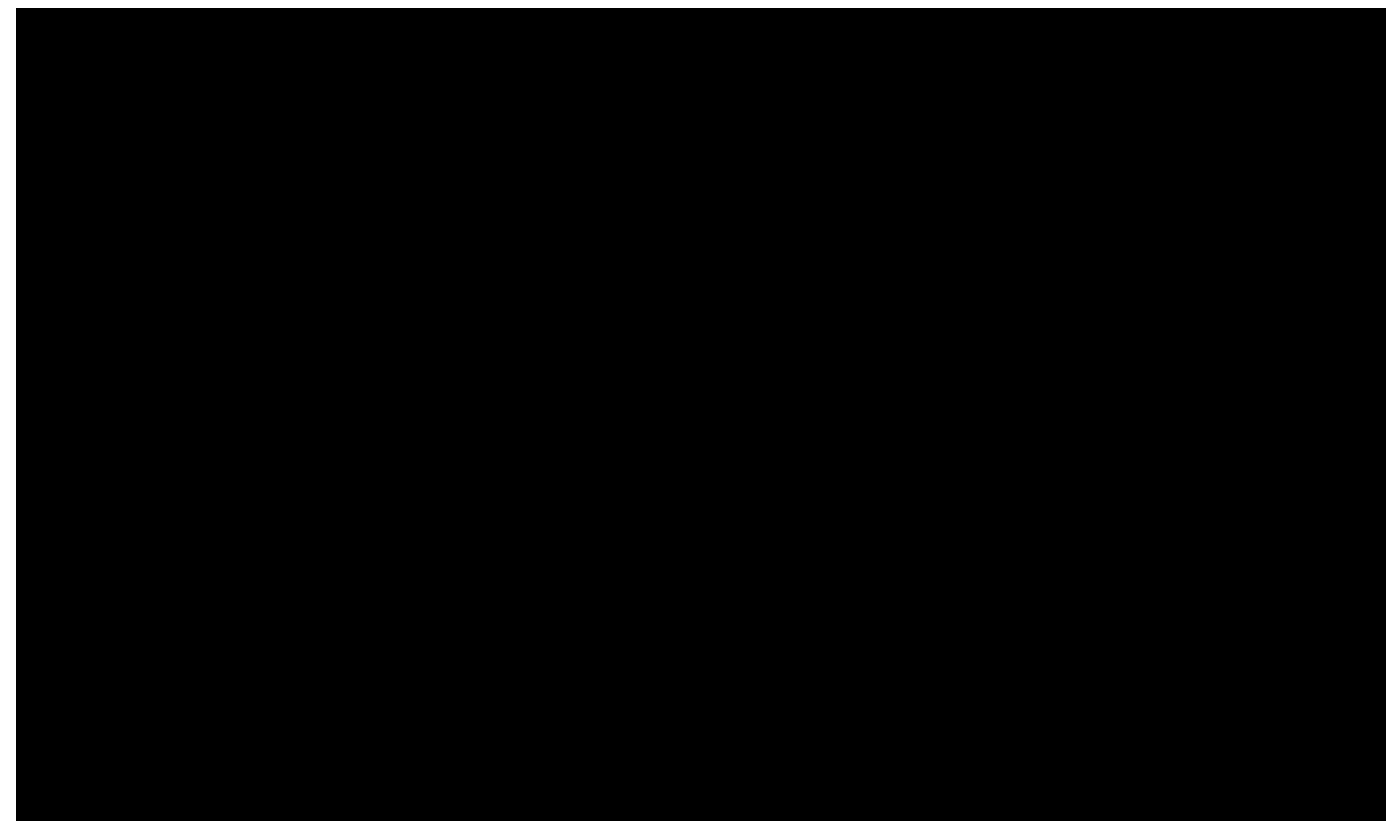
- (1) identification of the contract with the customer.
- (2) identification of separate performance obligations in the contract.
- (3) Determining the transaction price.
- (4) assigning the transaction price to separate execution obligations.
- (5) Recognition of income upon fulfillment of the performance obligations.

The Company recognizes revenues when the customer obtains control over the goods or services that Guaranteed. The income is measured according to the amount of consideration to which the Company expects to be entitled in exchange for the transfer of goods or services Guaranteed to the customer, other than amounts collected in favor of third parties.

As part of the initial application of the Standard, the Company elected to implement the following exemptions:

- (1) implementation of the cumulative effect approach only for contracts that have not yet ended as of the transition date; And

(2) An examination of the aggregate effect of changes in the contract that occurred prior to the date of initial application, instead of examining each change separately.

**Note 2 - Basis of Preparation (cont'd)****F. Initial implementation of new standards and interpretations (cont'd)****2. International Financial Reporting Standard IFRS 15, Revenue from Contracts with Customers (cont'd)**

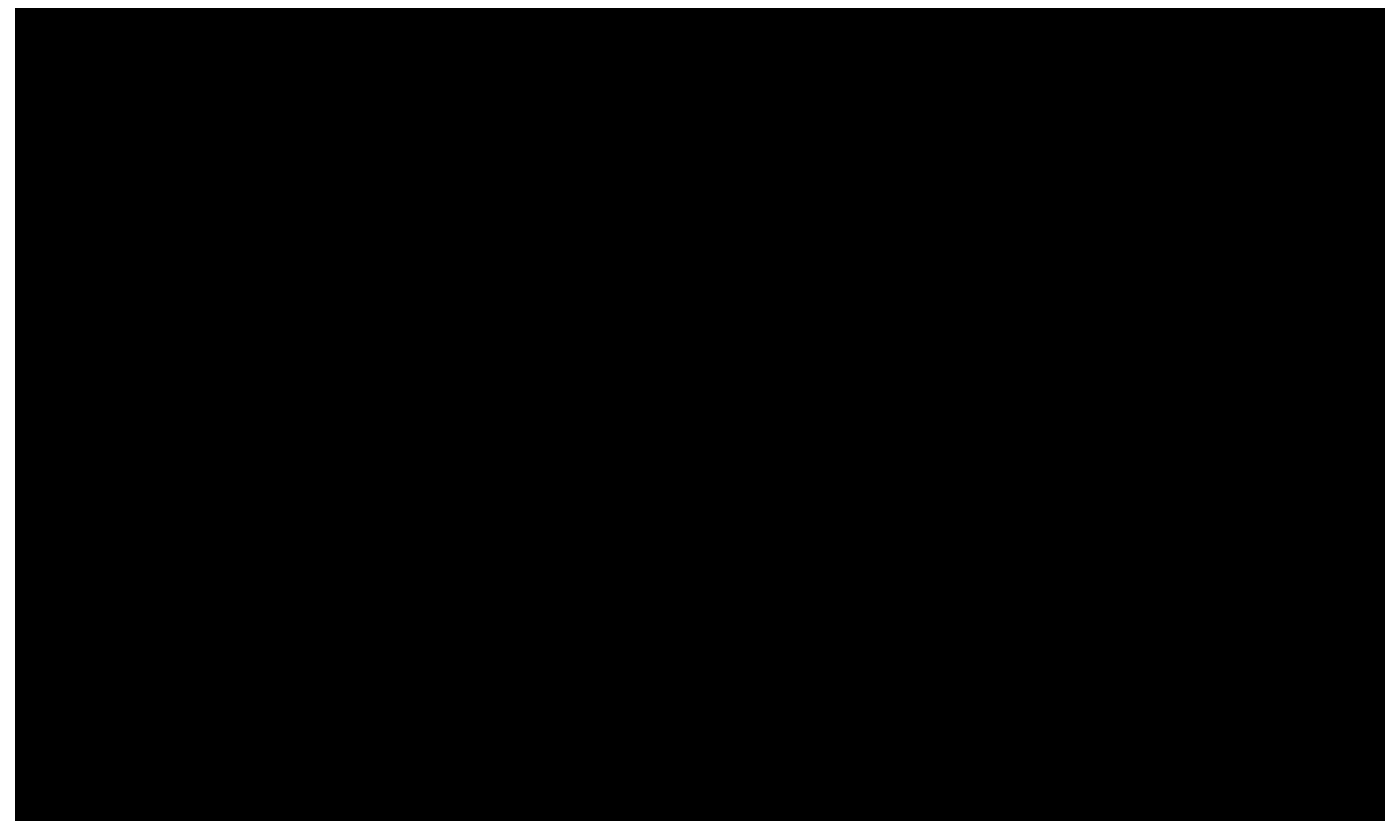
In addition, the Standard provides new and broader disclosure requirements than those existing today.

The Company chose to implement the standard in the cumulative effect approach. The implementation of the Standard had no effect on the financial statements. According to the Company's examination, the customers presented in the statement of financial position meet the definition of debtors as defined in the standard.

For information on changes in the main accounting policies of the Company that occurred as a result of application of the standard, see Note 3.I.

Note 3 - Significant Accounting Policies**A. Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currency of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.



Note 3 - Significant Accounting Policies (cont'd)

B. Financial instruments

1. Non-derivative financial assets

The following is the Company's policy regarding financial instruments implemented as of January 1, 2018 following the implementation of IFRS 9:

Classification and measurement of financial assets and financial liabilities initial Recognition and measurement

The Company first recognizes customers at the time of their creation. The rest of the financial assets and financial liabilities are initially recognized on the date that the Company becomes a party to the contractual terms of the instrument. In general, a financial asset or financial liability is initially measured at fair value plus, in the case of a financial asset or a financial liability not presented at fair value through profit and loss, transaction costs directly attributable to the acquisition or issue of the financial asset or financial liability. A customer that does not include a significant financing component is initially measured at the transaction price.

Financial assets - classification and subsequent measurement

The Company has balances of trade receivables and other receivables held within the framework of a business model whose objective is the collection of contractual cash flows. The contractual cash flows in respect of these financial assets include only principal and interest payments reflecting consideration for the time value of the money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Accounting policy applied in the periods preceding January 1, 2018:

Initial recognition of financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument, meaning on the date the Company undertook to purchase or sell the asset.

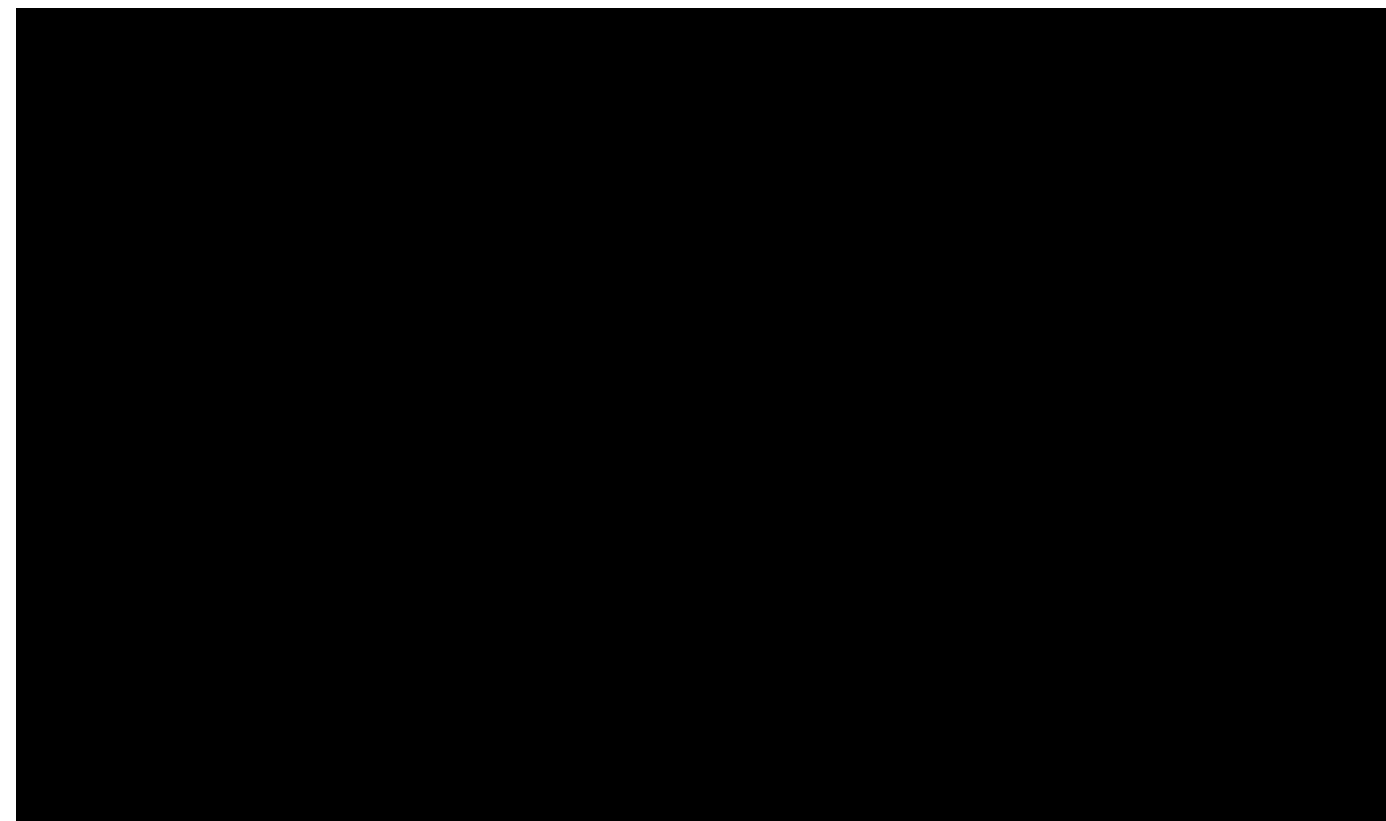
Non-derivative financial assets include accounts receivables, other accounts receivable and restricted deposits.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Company to the cash flows from the asset expire, or the Company transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Company undertook to sell the asset.

See (2) hereunder regarding the offset of financial assets and financial liabilities.

**Note 3 - Significant Accounting Policies (cont'd)****B. Financial instruments (cont'd)****1. Non-derivative financial assets (cont'd)**Loans and receivables

Loans and receivables include cash and cash equivalents, restricted deposits, trade receivables and other receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

2. Non-derivative financial liabilitiesInitial recognition of financial liabilities

Non-derivative financial liabilities include loans and borrowings from banks and related parties, trade and other payables.

The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

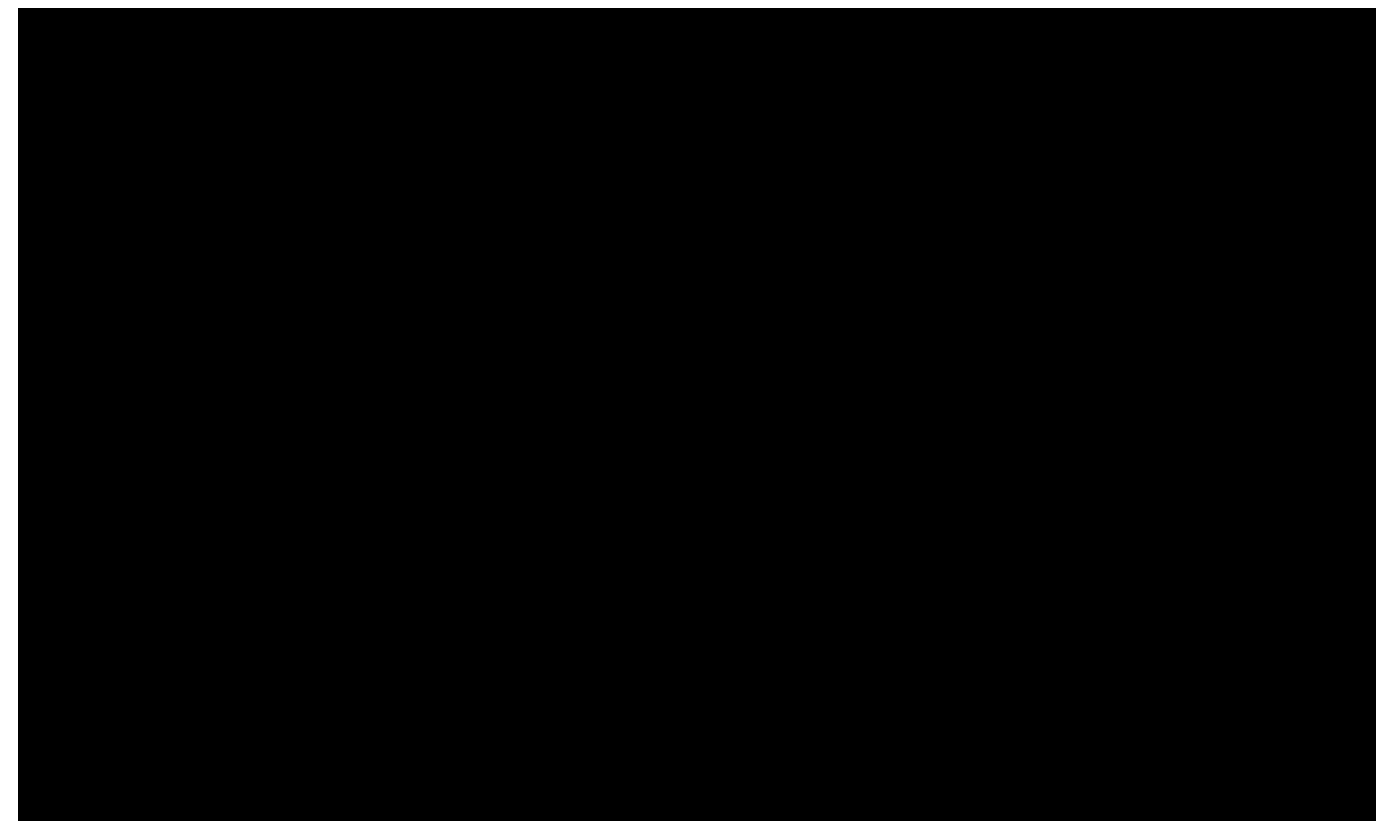
Financial liabilities are recognized initially at fair value plus all of the costs that can be attributed to the transaction. After the initial recognition, the financial liabilities are measured at amortized cost according to the effective interest rate method.

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Company, as specified in the agreement, expires or when it is discharged or cancelled.

Offset of financial instruments

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Note 3 - Significant Accounting Policies (cont'd)****B. Financial instruments (cont'd)****3. Derivative financial instruments**

The Company holds derivative financial instruments for the purpose of economic hedging (not accounting hedging) against foreign currency risks. Changes in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

4. CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase/decrease in the CPI.

5. Share capital**Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity.

C. Fixed assets**1. Recognition and measurement**

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of self-constructed assets includes costs directly attributable to the assets, direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, estimates of dismantling and restoration costs of the power plant, and capitalized borrowing costs. During the running period, the Company capitalized costs and revenues incurred as a result of competence tests attributed to the power plant.

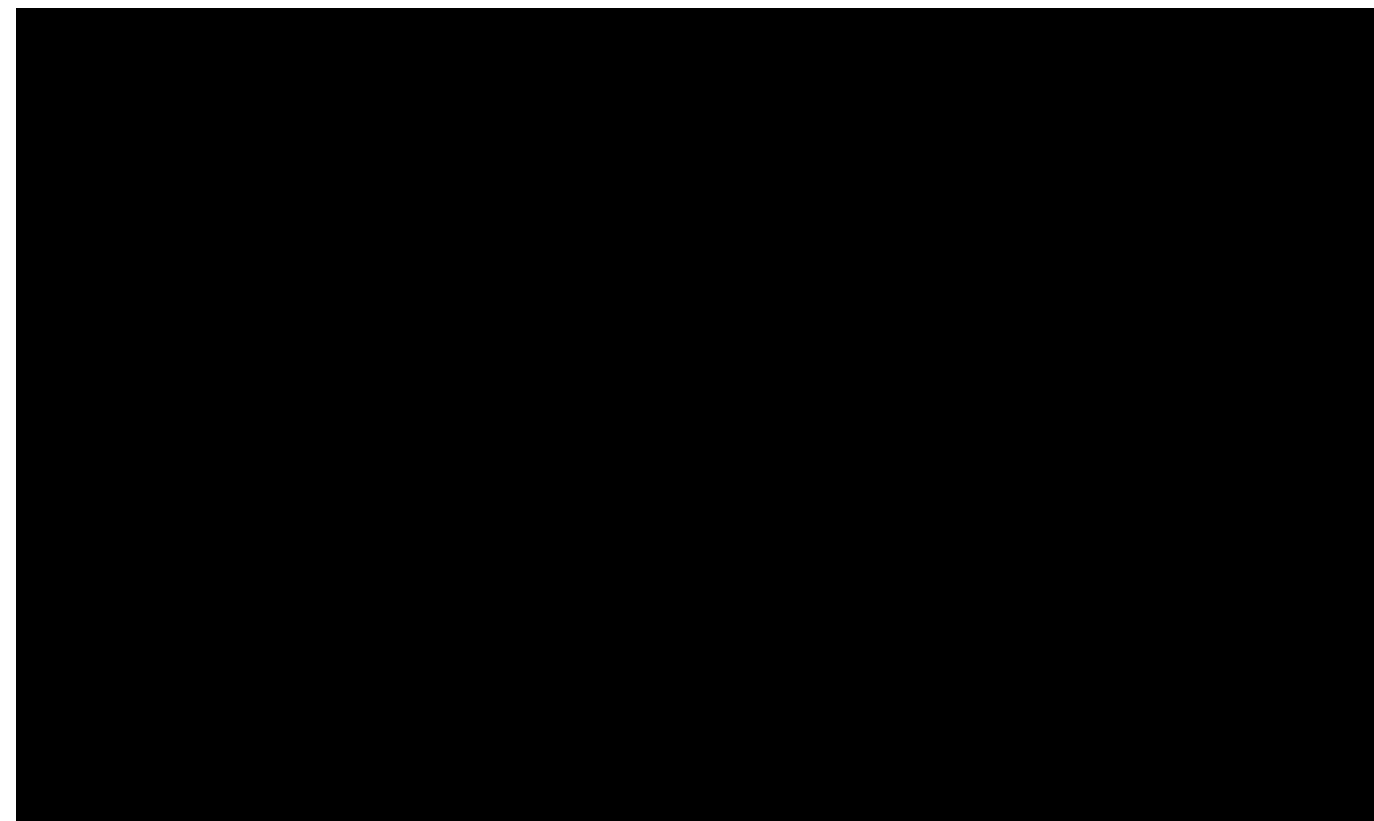
Spare parts, auxiliary equipment and backup equipment are classified as fixed assets once they meet the definition of fixed assets in accordance with IAS-16, otherwise they are classified as Inventory.

When major parts of a fixed asset item (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets. Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

Changes in commitments to dismantle and restore the power plant except for changes caused by the passage of time, are added to or deducted from the cost of asset during the period in which they occur. The amount deducted from the cost of asset will not exceed its book value. The balance, if any, is recognized immediately in the profit or loss statement.

2. Subsequent costs

The cost of replacing part of a fixed asset item and other subsequent expenses is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of day-to-day servicing are recognized in profit or loss as incurred.

**Note 3 - Significant Accounting Policies (cont'd)****C. Fixed assets (cont'd)****3. Depreciation**

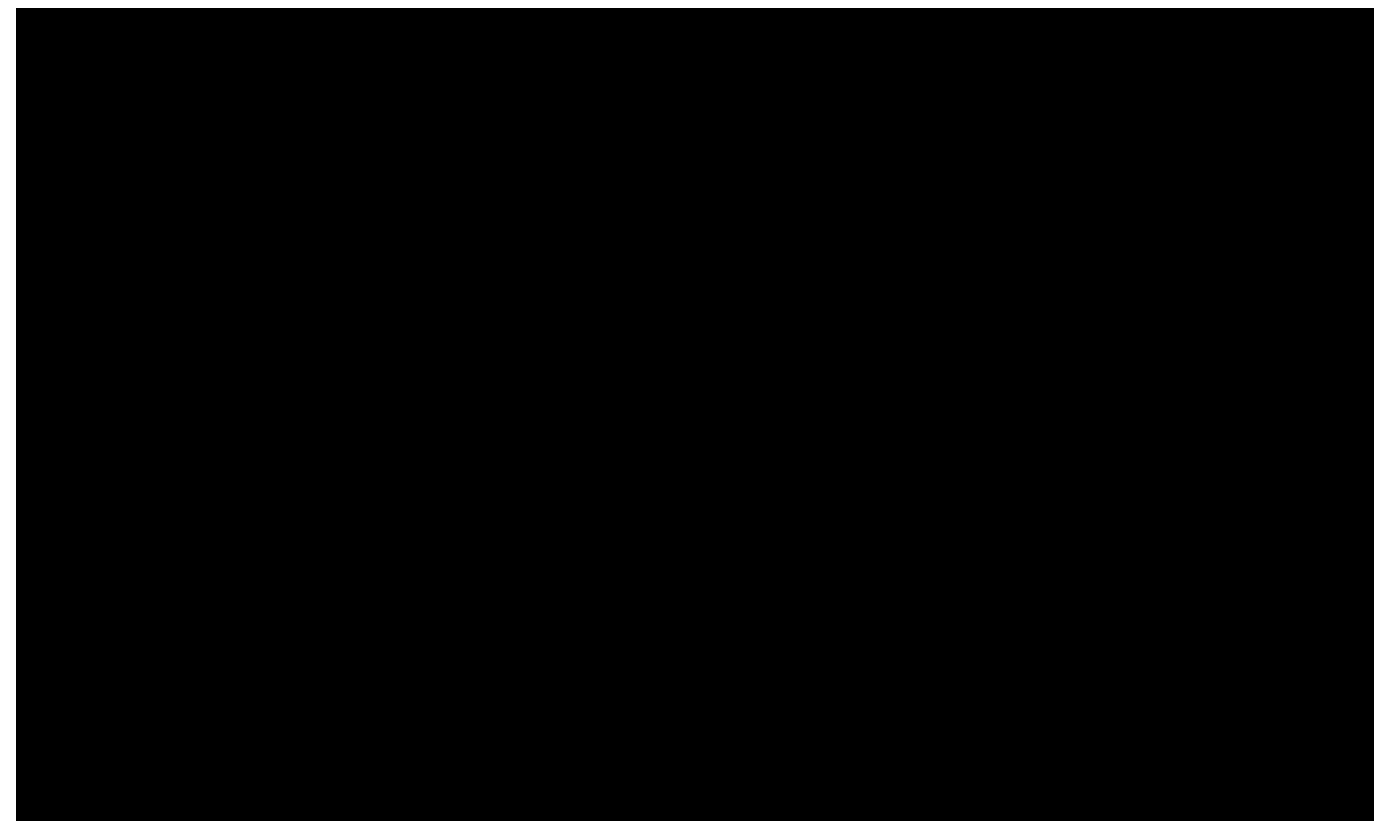
Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Recoverable amount is the cost of the asset, or other amount replacement cost, less its residual value.

Depreciation of fixed assets begins when it is available for use. This means that it should be in the location and condition necessary for it to be capable of operating in the manner intended by the management. As stated in Note 1B (1), the Company began to depreciate fixed assets from the day of the beginning of commercial operations, in accordance with the depreciation rates listed below. Depreciation is recognized in the profit and loss statement on a straight-line basis (unless otherwise stated) over the estimated useful life of each significant part of the fixed asset, since this method reflects the expected pattern of consumption of future economic benefits best embodied in the asset.

The estimated useful lives for the current period are as follows:

	Depreciation rate (percentage)
Buildings and permanent connections	4
Turbine components	4 or by operating hours
Machinery, equipment and apparatus	mainly 4
Monitoring station	10
Spare parts	4
Backup diesel	upon usage

Depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted when necessary.

**Note 3 - Significant Accounting Policies (cont'd)****D. Intangible assets****1. Recognition and measurement**

Intangible assets are identifiable non-monetary assets that do not have a physical substance. The Company's intangible assets consist of the costs of software systems that were adapted to the Company's needs. Among others, these include the billing system, the customer consumption forecast system, operating system and the ERP system. The intangible assets that were acquired by the Company have a finite useful life and are measured at cost less accumulated amortization and accumulated impairment losses.

2. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

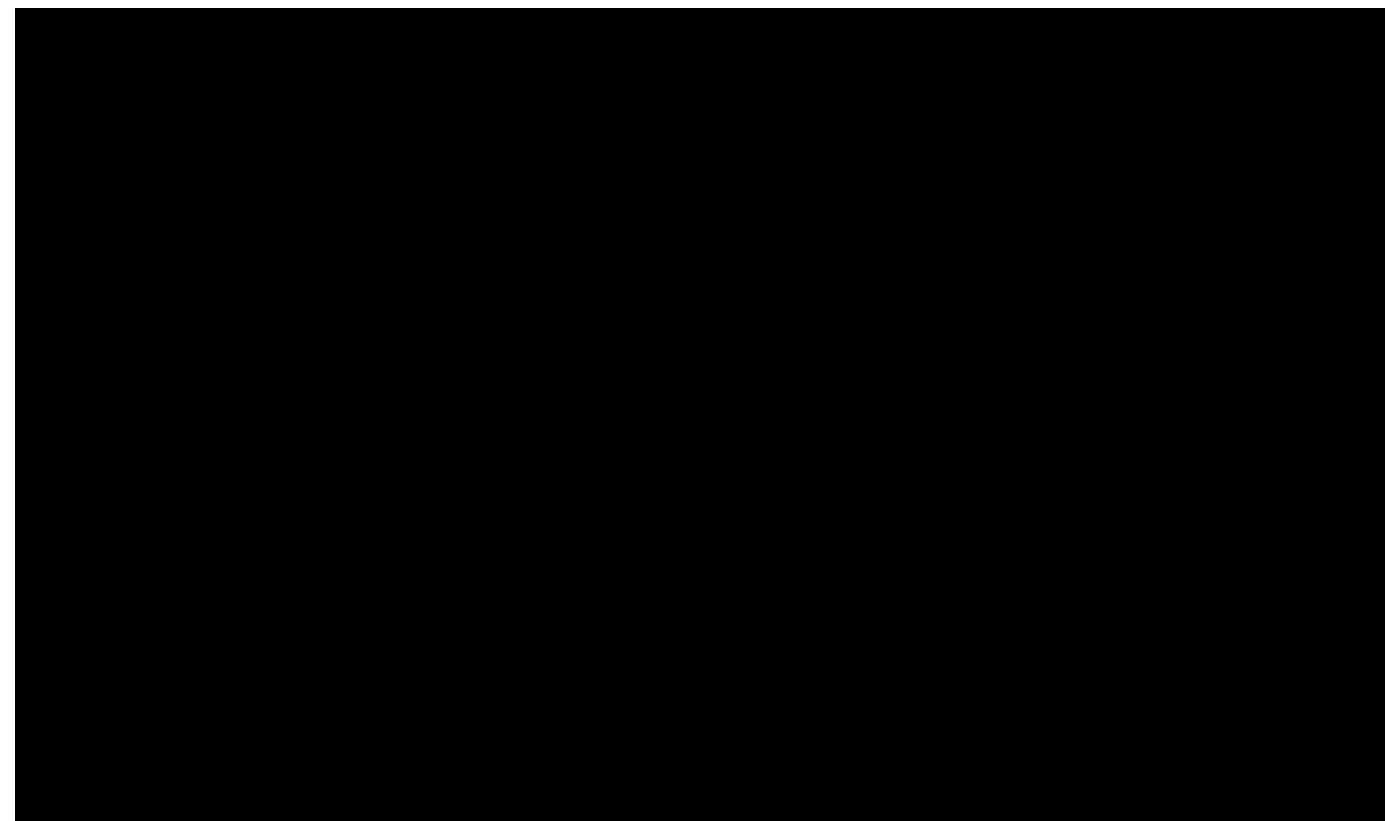
3. Amortization

Amortization is the systematic allocation of the amount of an intangible asset over its useful life. Recoverable amount is the cost of the asset, or other amount replacement cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets from the date that they are available for use, since these methods reflect the anticipated consumption program of future economic benefits embodied in the asset in the best form.

The estimated useful life for the current software systems is five years.

Estimates regarding the amortization method and useful lives are reviewed at each reporting period and adjusted when necessary.

Notes to the Financial Statements as at December 31, 2018



Note 3 - Significant Accounting Policies (cont'd)

E. Impairment1) Non derivative financial assets

The following is the Company policy regarding impairment in respect of financial assets implemented as of January 1, 2018, following the implementation of IFRS 9:

Impaired financial assets due to credit risk at each reporting date, the Company estimates whether financial assets measured at amortized cost have become impaired due to credit risk. A financial asset is impaired due to credit risk when one or more of the events that have a negative effect on the future cash flows estimated in respect of this financial asset occurred.

Accounting policy applied in the periods preceding January 1, 2018:

Impairment of a financial asset that is not presented at fair value through profit or loss is examined when there is objective evidence that a loss event occurred after the initial recognition of the asset and that this loss event had a negative impact on the estimated future cash flows of the asset that can be reliably estimated.

Treatment of impairment losses on financial assets measured at amortized cost

An impairment loss on a financial asset measured at amortized cost is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of the asset. Losses are recognized to the statement of profit and loss and presented as a provision for loss against the balance of the financial asset measured at amortized cost. Interest income on impaired assets is recognized by using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss

2) Non-financial assetsTiming of impairment testing

The carrying amounts of the Company's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Determining cash-generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Measurement of recoverable amount

The recoverable amount of an assets or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value that reflects current market assessments of the value of money and the risks specific to the assets, for which the estimated future cash flows from the asset were not adjusted.

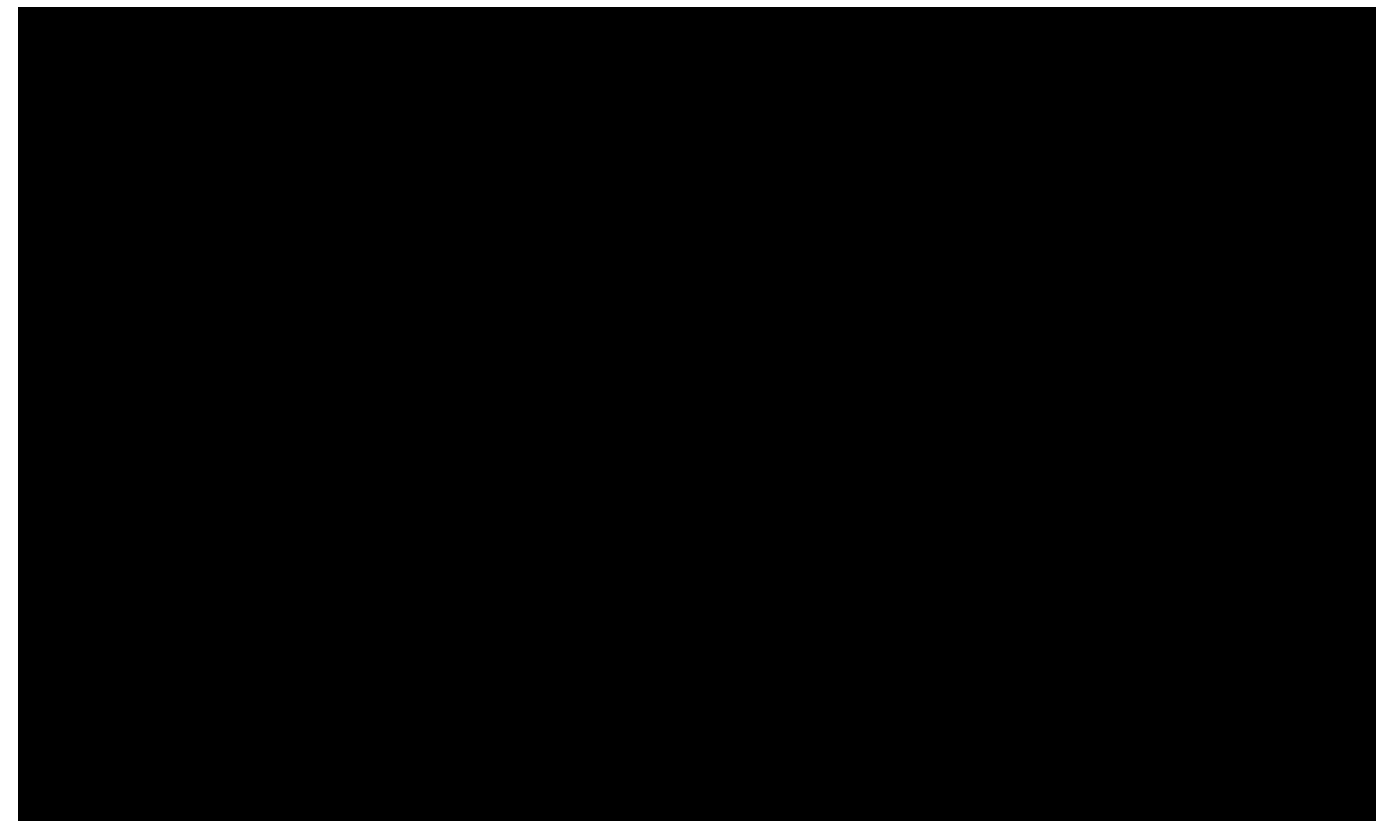
Recognition of impairment loss

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Reversal of impairment loss

In respect of other assets, for which impairment losses were recognized in prior periods, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notes to the Financial Statements as at December 31, 2018



Note 3 - Significant Accounting Policies (cont'd)

F. Capitalization of borrowing costs

Specific and non-specific borrowing costs were capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Foreign currency differences from credit in foreign currency are capitalized if they are considered an adjustment of interest costs. Other borrowing costs are expensed as incurred.

G. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

Provision for dismantling and restoration – The Company recognized a provision for removal and restoration costs regarding its commitment under long-term lease on which the power plant is located. Changes to this provision arising from changes of the interest rate are added to or deducted against the fixed asset.

H. Indemnification Asset

The Company recognizes indemnification assets for damages and faults caused to turbines at the power plant and for loss of profits if it is virtually certain that the indemnity will be received

I. Revenues

The following is the Company's policy regarding recognition of income, which is implemented as of January 1, 2018 following the implementation of IFRS 15:

Revenue

The Company recognizes revenues when the customer obtains control over the goods or services that have been secured. The income is measured according to the amount of consideration to which the Company expects to be entitled in exchange for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties.

Determination of transaction price

The price of the transaction is the amount of consideration to which the Company expects to be entitled in return for the transfer of goods or services promised to the customer, other than amounts collected in favor of third parties.

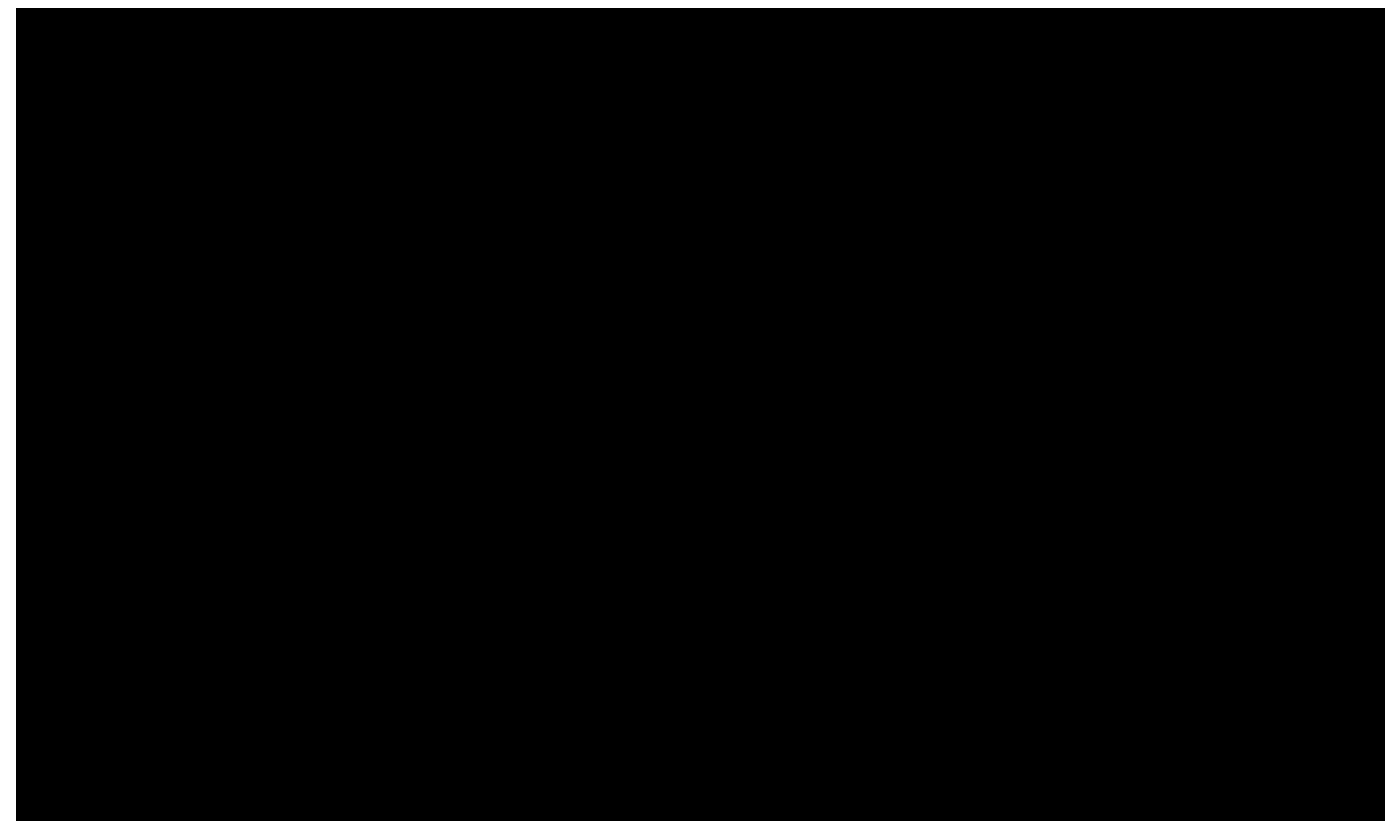
Accounting policy applied in the periods preceding January 1, 2018:

The Company recognizes a revenue when it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably.

Revenues are measured at the fair value of the amounts received and/or the amounts the Company is entitled to receive in respect of revenues from sale of

electricity net of discounts and credits.

The company's revenues mainly include revenues from selling electricity to end customers and to the IEC and from providing availability to the system manager.

**Note 3 - Significant Accounting Policies (cont'd)****J. Taxes on Income**

Income tax expense is comprised of deferred taxes.

Deferred taxes are recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred taxes reflects the tax consequences that will result from the way the Company expects, at the end of the reporting period, to restore or remove the carrying amounts of assets and liabilities. Deferred tax is measured at the tax rates expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for tax loss carry forwards, tax benefits and deductible temporary differences, when it is probable that future taxable income against which can be utilized. Deferred tax assets are reviewed at each reporting date and if it is not expected that the related tax benefit will be exercised, they are reduced.

The Company offsets assets and deferred tax liability if there is a legally enforceable right to offset the assets and current tax liabilities, and they relate to the same taxable income levied by the same tax authority.

K Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

L. Leased assets

Leases, where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Other leases are classified as operating leases, and the leased assets are not recognized on the Company's statement of financial position.

Lease fees paid in respect of land leases classified as operating leases are presented on the statement of financial position as prepaid expenses and recognized in profit or loss over the lease period. The lease period takes into consideration an option to extend the lease period if at the beginning of the lease it was probable that the option will be exercised.

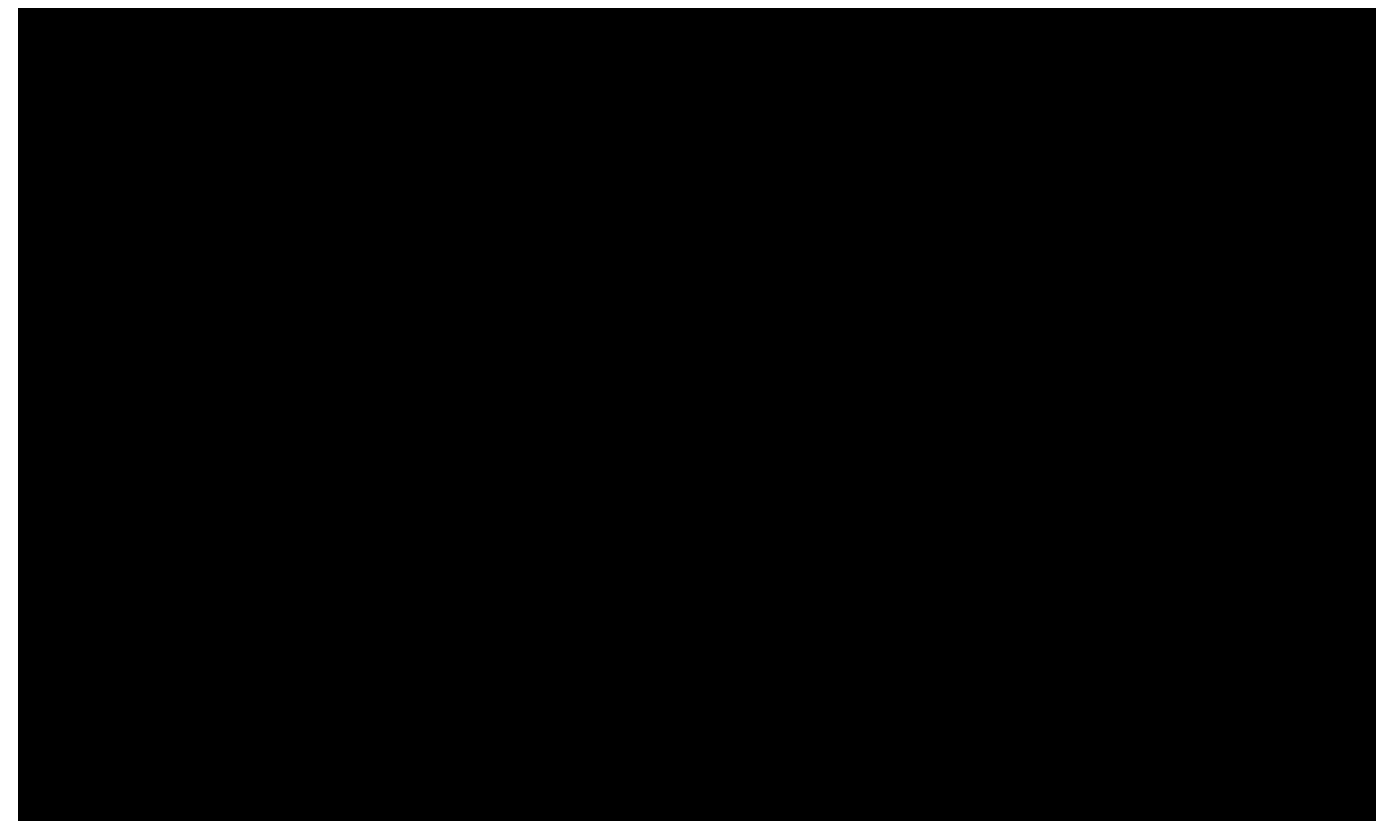
M. Financing income and expenses

Financing income and expenses include changes in the fair value of financial assets presented at fair value through the profit and loss and derivative hedging instruments which are recognized in profit and loss. Interest income is recognized as it accrues using the effective interest method. Financing expenses include interest expenses on bank loans, bank commissions and change in time value regarding provisions.

In the statements of cash flows, interest received is presented as part of cash flows from investing activities. Interest paid is presented as part of cash flows from financing activities.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses

depending on whether foreign currency movements are in a net gain or net loss position.

**Note 3 - Significant Accounting Policies (cont'd)****N. Transactions with controlling shareholder**

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.

O. New standards and interpretations not yet adopted**(1) IFRS 16, Leases**

IFRS 16 replaces IAS 17, Leases and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements.

IFRS 16 is applicable for annual periods as of January 1, 2019.

The Company intends to adopt the Standard as of January 1, 2019 in the cumulative effect approach, without correcting comparative figures.

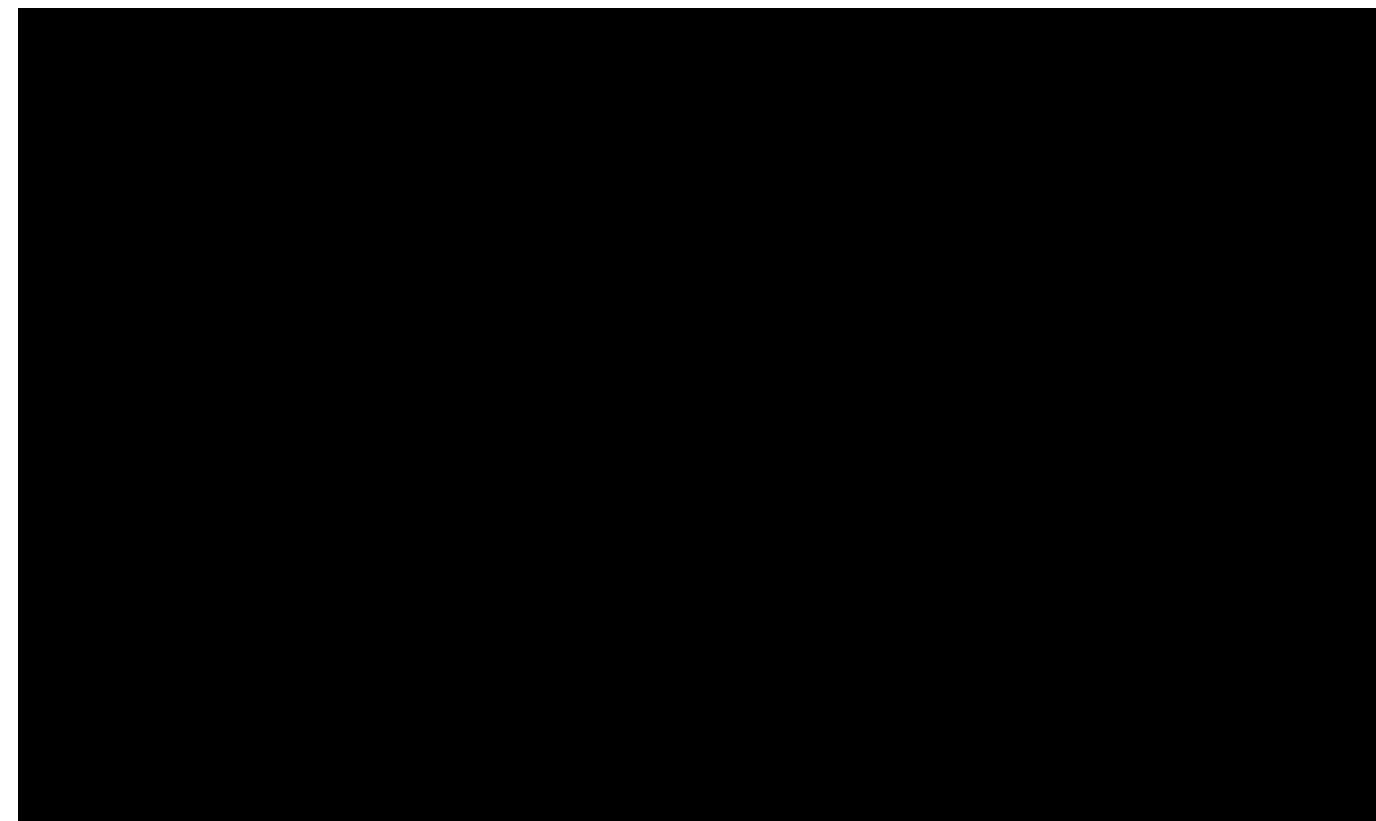
Expected effect

The Company plans to elect to apply the transitional provision of recognizing a lease liability at the date of initial application, for all the leases that award it control over the use of identified assets for a specified period of time, and except for when the Company has elected to apply the standard's expedients as aforesaid, according to the present value of the future lease payments discounted at the incremental borrowing rate of the lessee at that date, and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of the standard is not expected to have an effect on the balance of retained earnings at the date of initial application. These changes are expected to result in an increase of NIS 54 million in the balance of right-of-use assets at the date of initial application and an increase of NIS 54 million in the balance of the lease liability at the date of initial application. Accordingly, depreciation and amortization expenses will be recognized in subsequent periods in respect of the right-of-use asset, and the need for recognizing impairment of the right-of-use asset will be examined in accordance with IAS 36. Furthermore, financing expenses will be recognized in respect of the lease liability. Therefore, as from the date of initial application and in subsequent periods, depreciation expenses and financing expenses will be recognized instead of lease expenses relating to assets leased under an operating lease, which were presented as part of the general and administrative expenses item in the income statement.

In addition, the nominal discount rates used for measuring the lease liability are in the range of 2.81% to 3.81%. This range is affected by differences in the length of the lease term, differences between the various groups of assets, different discount rates of the company.

The Company expects a change in principal financial ratios such as: an increase in the leverage ratio, a decrease in the interest coverage ratio and a decrease in the current ratio. The Company does not expect that its ability to satisfy financial covenants applicable to it as described in Note 15 regarding financial instrument, will be affected by these changes in financial ratios.

Notes to the Financial Statements as at December 31, 2018



Note 4 - Cash and Cash Equivalents

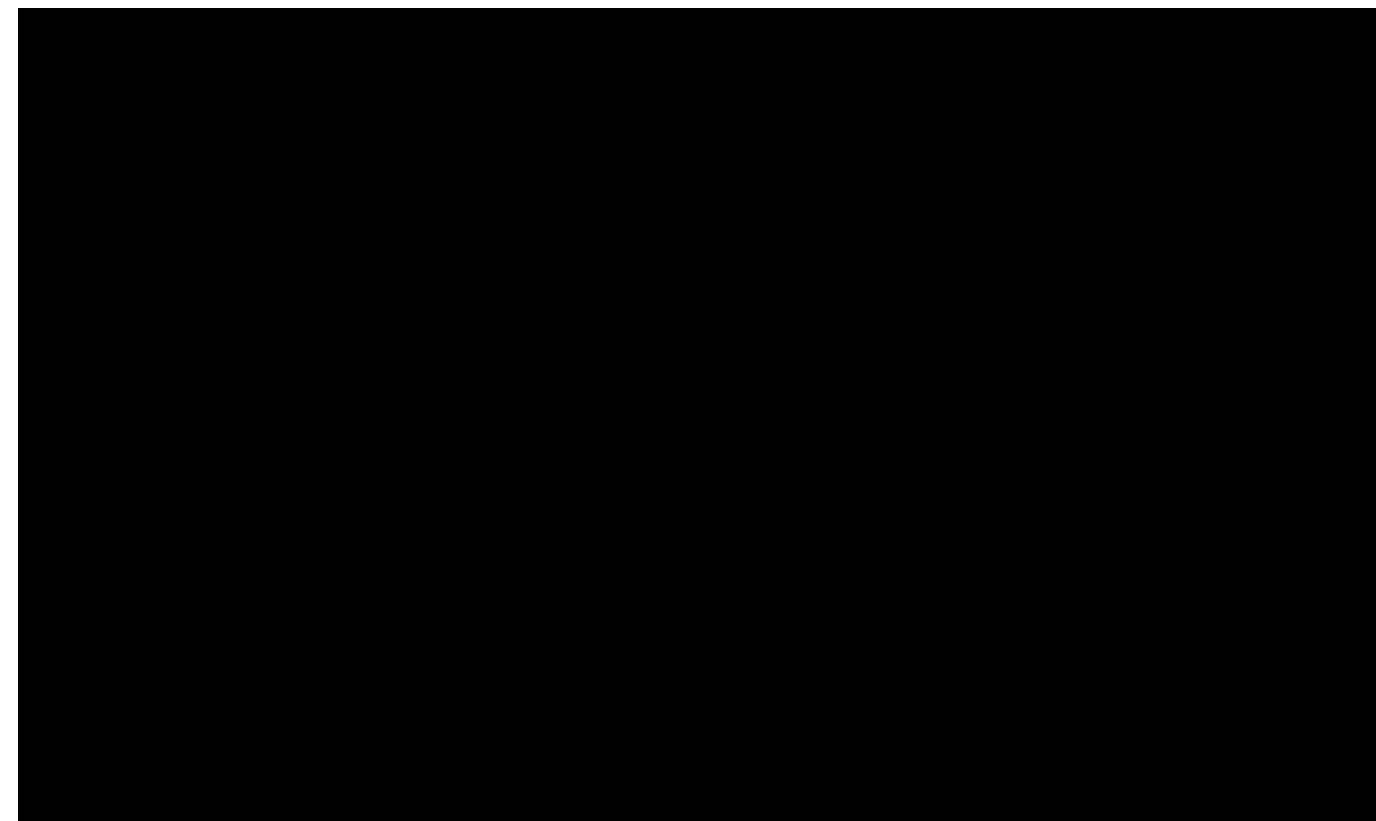
	December 31	
	2018	2017
	NIS	NIS
	thousands	thousands
Balance in banks	6	6
Deposits on demand (*)	117,214	184,176
	<u>117,220</u>	<u>184,182</u>

(*) Deposits on demand bear interest rate of 0.1%.

Note 5 - Other Receivables

	December 31	
	2018	2017
	NIS	NIS
	thousands	thousands
Government institutions	4,838	6,656
Receivables for warranty and insurance	31,206	55,921
Advances to suppliers and prepaid expenses	20,373	20,712
	<u>56,417</u>	<u>83,289</u>

Notes to the Financial Statements as at December 31, 2018



Note 6 - Fixed Assets

A. Composition

	Power plant	Furniture and equipment	Leasehold improvements	Total
	NIS thousands			
Cost				
Balance as at January 1, 2017	4,730,243	2,496	736	4,733,475
Additions	128,513	42	-	128,555
Disposals	(59,190)	-	-	(59,190)
Balance as at December 31, 2017	4,799,566	2,538	736	4,802,840
Additions	78,479	184	8	78,671
Disposals	-	-	-	-
Balance as at December 31, 2018	4,878,045	2,722	744	4,881,511
Depreciation				
Balance as at January 1, 2017	561,431	1,702	191	563,324
Additions	251,294	347	74	251,715
Disposals	(21,207)	-	-	(21,207)
Balance as at December 31, 2017	791,518	2,049	265	793,832
Additions	217,683	122	74	217,879
Disposals	-	-	-	-
Balance as at December 31, 2018	1,009,201	2,171	339	1,011,711
Carrying amounts				
As at January 1, 2017	4,168,812	749	545	4,170,151
As at December 31, 2017	4,008,048	489	471	4,009,008
As at December 31, 2018	3,868,844	551	405	3,869,800

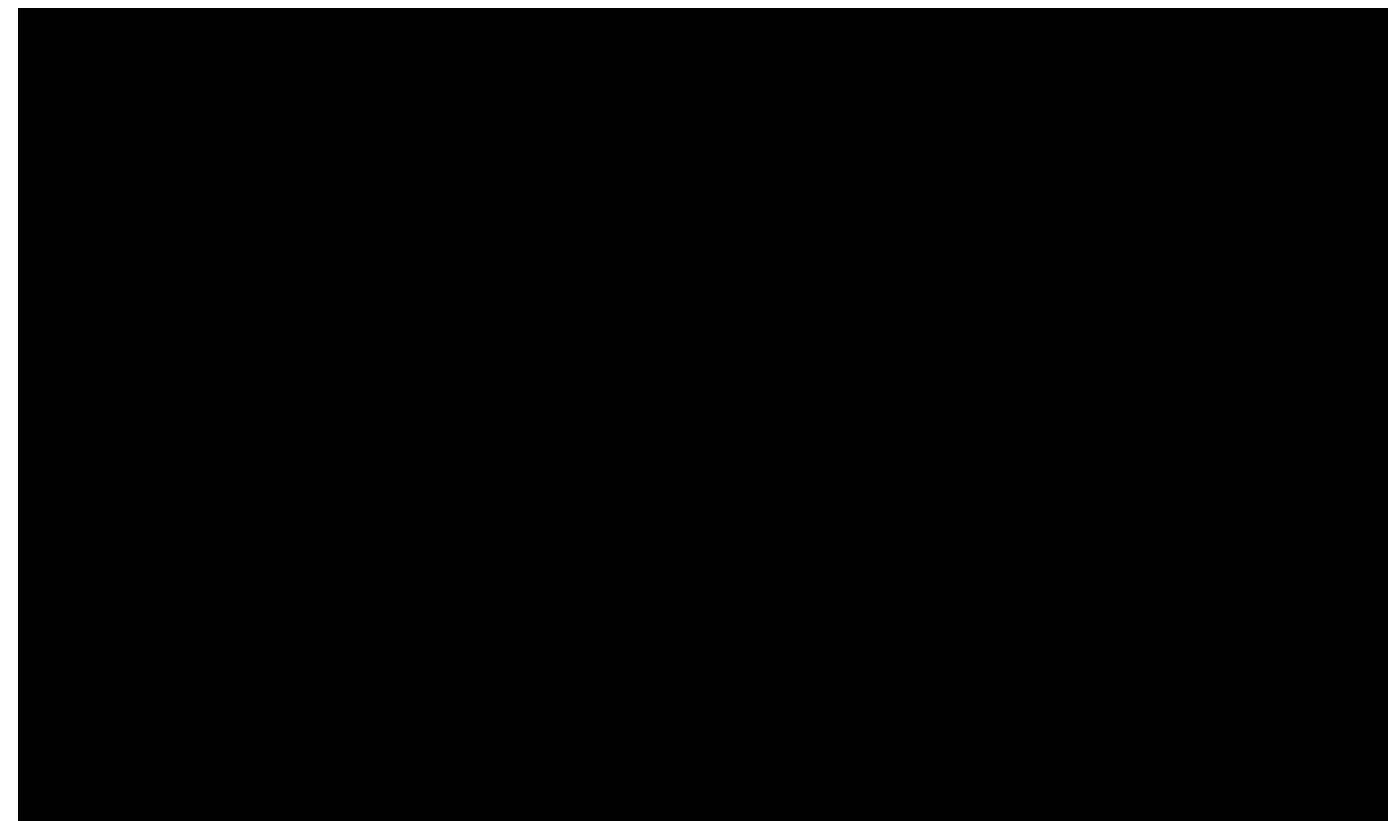
B. Security

See Note 11C regarding a lien on the Company's assets that serves as security for the liabilities of the Company and the shareholders.

C. Provision for restoration and dismantling

Net decrease in the provision arising from changes of the interest rate in the amount of about NIS 1.2 million was deducted against the fixed asset. Increase in the time value of the provision in the amount of about NIS 0.4 million was recognized within profit and loss as financing expenses.

Notes to the Financial Statements as at December 31, 2018



Note 7 - Loans from Banks

Presented hereunder are contractual terms of the bank loans of the company and its carrying amounts. For further information regarding the company's exposure to interest rate risks and liquidity risks see Note 14 – financial instruments.

Details regarding interest rates and linkage*

	Currency and linkage base	Effective interest %	Carrying amount as at December 31	
			2018 NIS thousands	2017 NIS thousands
Loans from banks	CPI-linked	5.29%-5.1%	3,233,836	3,391,692
Less current maturities (including interest as at December 31)	NIS		217,254	203,819
			3,016,582	3,187,873

* See also Note 11A(1) regarding credit terms and financial covenants.

- On February 14, 2018, the rating company announced that it would raise the rating to the

Company senior debt. As a result of the increase in the rating and in accordance with the financing agreements with the financing entities, The Annual interest rate on the balance of the loan decreased by 0.4% as of July 13, 2018.

Note 8 - Other Payables

	December 31	
	2018 NIS thousands	2017 NIS thousands
Accrued expenses (*)	5,100	4,555
Other payables	866	1,094
	5,966	5,649
(*) Including other payables due to related and interested parties	733	680

Note 9 - Loans from Related Parties

December 31	
2018	2017

	NIS thousands	NIS thousands
Shareholders(1)		
Eilat-Ashkelon Infrastructure Services Ltd. (2)	7,568	74,011
Zorlu Enerji Elektrik Uretim A.S. (2)	1,523	46,176
U. Dori Energy Infrastructure Ltd. (2)	3,565	36,809
Edelcom Ltd. (2)	5,149	38,232
	<u>17,805</u>	<u>195,228</u>
Less current maturities (2)	<u>17,805</u>	<u>140,464</u>
	<u>-</u>	<u>54,764</u>

Notes to the Financial Statements as at December 31, 2018

Note 9 - Loans from Related Parties (cont'd)

1. In accordance with the agreement regarding the subordinated shareholders' loans, the loans bear interest at the rate of 10% and are linked to the CPI. As at December 31, 2017, the amount of loans received including accrued interest is NIS 1,168 million, of which an amount of NIS 642 million was converted to equity during 2011-2013. The remaining balance is expected to be repaid in the future subject to compliance with financial covenants as specified in the financing agreements. See Note 11A(1)(a).
2. According to the financing agreements, two years after the date of commercial operation, and subject to the Company's compliance with financial covenants and other commitments as specified in the agreement, it will be possible to repay shareholders' loans. During 2018 the company repaid amount of NIS 190 million, NIS 30 million is repayment of interest and linkage differentials and the remaining balance of NIS 160 million is principle repayment. During 2017 the Company repaid amount of NIS 50 million, NIS 10 million is repayment of interest and linkage differentials and the remaining balance of NIS 40 million is principle repayment. The Company expects to comply with the financial covenants and commitments provided in the financing agreements. The company expect to repay an additional shareholders loan in the amount of NIS 18 million. Considering the above, the Company classified NIS 18 million as current maturities in the financial statements as at December 31, 2018.

Note 10 - Income Tax**A. Details regarding the tax environment of the Company**

- (1) Presented hereunder are the tax rates relevant to the Company in the years 2016-2018:

2016 – 25%
 2017 – 24%
 2018 – 23%

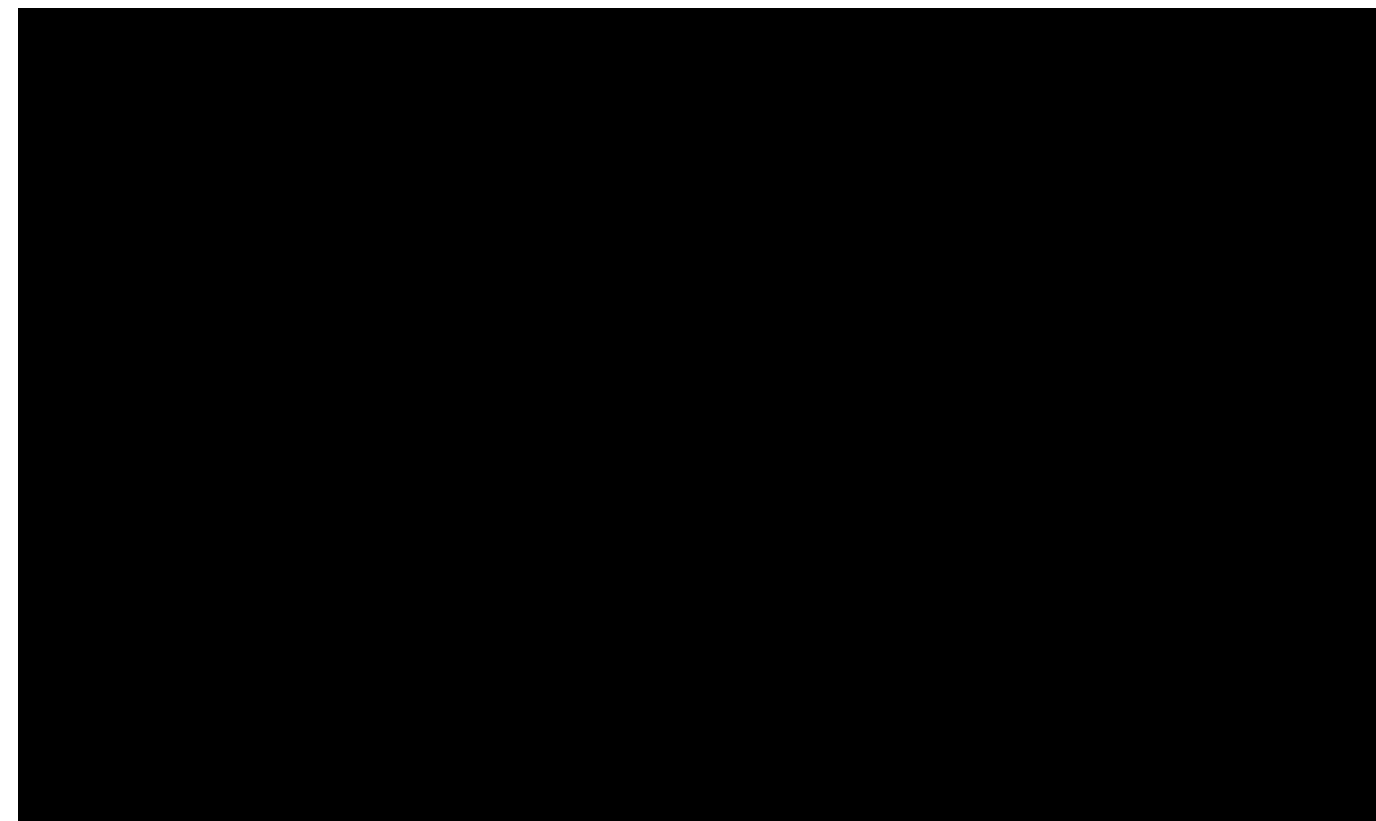
On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016.

As a result of the reduction in the tax rate to 25%, the deferred tax balances as at January 4, 2016 were calculated according to the new tax rate specified in the Law for the Amendment of the Income Tax Ordinance, at the tax rate expected to apply on the date of reversal.

Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at December 31, 2018 were calculated according to the new tax rate specified in the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018), at the tax rate expected to apply on the date of reversal.

Deferred taxes for the reported periods are calculated according to the tax rates presented above.



Note 10 - Income Tax (cont'd)

A. Details regarding the tax environment of the Company (cont'd)

- (2) On January 12, 2012 Amendment 188 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – “the Ordinance”) was published in the Official Gazette. The amendment amended Section 87A to the Ordinance, and provides a temporary order whereby Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)” that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the tax years 2010-2011 even if this standard was applied when preparing the financial statements (hereinafter – “the Temporary Order”). On July 31, 2014 Amendment 202 to the Ordinance was issued, by which the Temporary Order was extended to the 2012 and 2013 tax years.
- (3) The Company is an “Industrial Company” as defined in the Encouragement of Industry (Taxes) 1969 and accordingly is entitled to certain benefits including accelerated depreciation.

B. Composition of income tax expense

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
	NIS thousands	NIS thousands	NIS thousands
Deferred tax expense	33,505	23,681	4,736

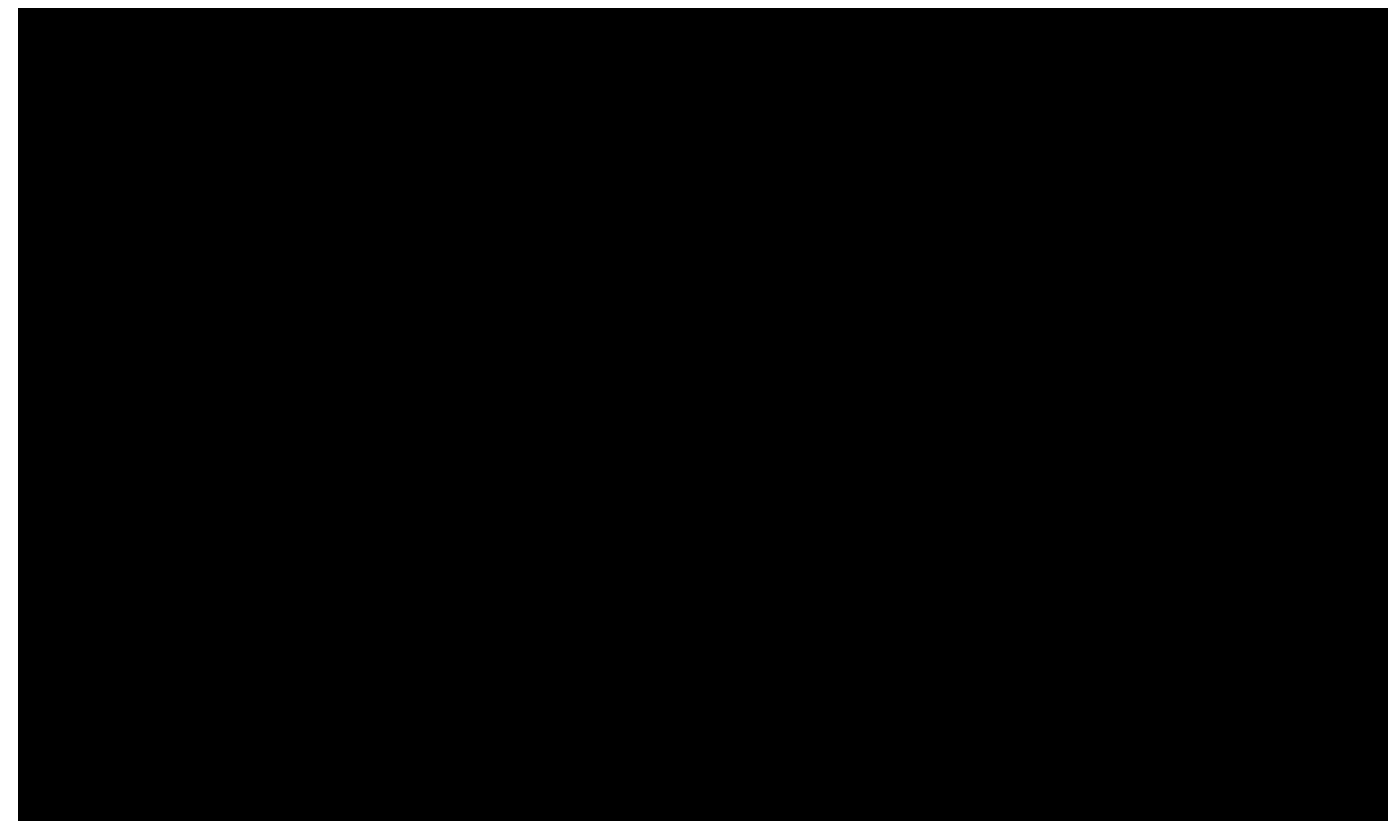
C. Deferred tax liabilities and assets recognized

The deferred taxes are calculated using the tax rate expected to apply when reversed as described above. Changes in the tax liabilities and assets are attributed to the following items:

	Fixed assets	Provisions and other timing differences	Tax losses carried forward	Total
	NIS thousands			
Balance of deferred tax asset (liability) as at January 1, 2017	(353,050)	8,831	278,602	(65,617)
Changes recognized in the profit and loss statements	(135,287)	574	110,002	(24,711)
impact of decrease in tax rate	5,636	(23)	(4,583)	1,030
	(129,651)	551	105,419	(23,681)

Balance of deferred tax asset (liability) as at December 31, 2017	(482,701)	9,382	384,021	(89,298)
Changes recognized in the profit and loss statements	<u>(129,825)</u>	<u>(838)</u>	<u>97,158</u>	<u>(33,505)</u>
	(129,825)	(838)	97,158	(33,505)
Balance of deferred tax asset (liability) as at December 31, 2018	<u><u>(612,526)</u></u>	<u><u>8,544</u></u>	<u><u>481,179</u></u>	<u><u>(122,803)</u></u>

Notes to the Financial Statements as at December 31, 2018



Note 10 - Income Tax (cont'd)

D. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense.

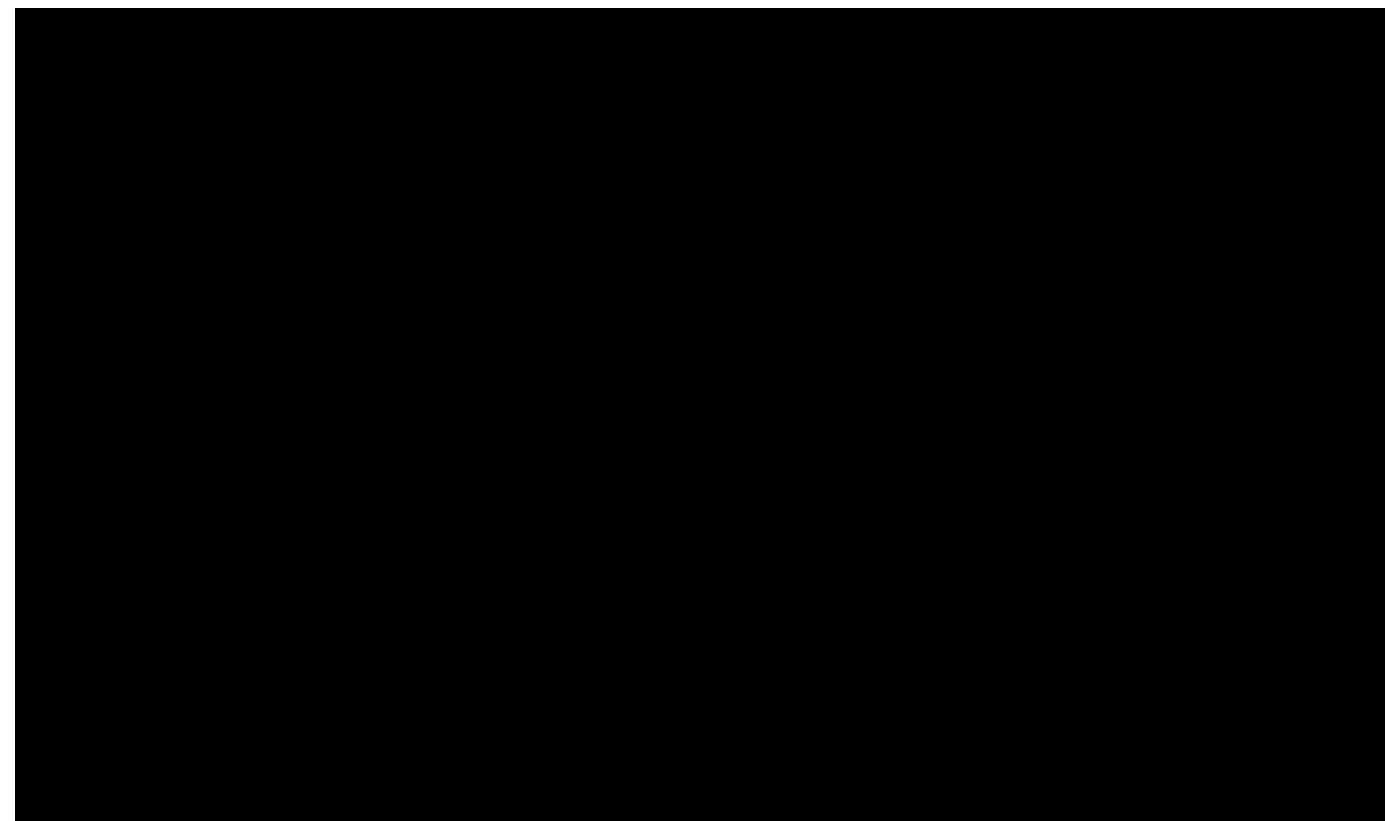
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
	NIS thousands	NIS thousands	NIS thousands
Profit before taxes on income	167,650	102,922	55,942
Statutory tax rate of the company	23%	24%	25%
Tax calculated according to the Company's statutory tax rate	38,559	24,701	13,985
creation of deferred taxes in respect of losses from previous years for which no deferred taxes were recorded in the past	(5,092)	-	-
Impact of decrease in tax rate	-	(1,030)	(9,154)
Non-deductible expenses and others	38	10	(95)
Income tax expense	<u>33,505</u>	<u>23,681</u>	<u>4,736</u>

E. Tax losses carried forward

The total amount of forward losses from business as at December 31, 2018 is about NIS 2,092 million (as of December 31, 2017 – NIS 1,669 million). The Company has recorded deferred taxes in respect of these losses, since the Company expects to utilize them against taxable income for tax purposes that will be created for the Company in the foreseeable future.

F. Tax assessments

The Company has not yet received tax assessments since its establishment. Although, the company has final tax assessments up to and including the year ended December 31, 2013 (subject to the limitations prescribed by law).



Note 11 - Contingent Liabilities, Commitments and Guarantees

A. Commitments

1. Financing agreements

On November 29, 2010 (hereinafter: "the Financial Closing Date"), the Company signed a financing agreement and several related agreements with Bank Hapoalim Ltd. as the financial organizer, Clal Credit and Financing Ltd. from the Clal Insurance Enterprises Holdings Ltd. Group as the organizer of the institutional consortium as well as the bank and institutional investors consortium (hereinafter: "the Financing Parties") to provide financing in the amount of up to NIS 3,850 million linked to CPI, though not more than 80% of the costs of the construction of a power plant for generating electricity in Ashkelon, subject to the terms of the provisions of the financing agreement and the related agreements (hereinafter: "the Financing Agreements"). Likewise, bank guarantees will be provided to third parties according to the project documents. The financing agreement includes representations and warranties concerning the Company and the project where breaching these representations and warranties is likely to lead, inter alia, to the demand for immediate repayment of the outstanding credit and/or a breach of its obligations and/or to the cancellation of the license. Accordingly, the Company is required to comply the following debt coverage:

1. The Company is required to maintain a debt coverage ratio of 1.10:1 over two consecutive calculation periods, and a debt coverage ratio of 1.05:1 over the entire calculation period.
2. The Company is required to maintain a minimal loan life coverage ratio of 1.10:1.

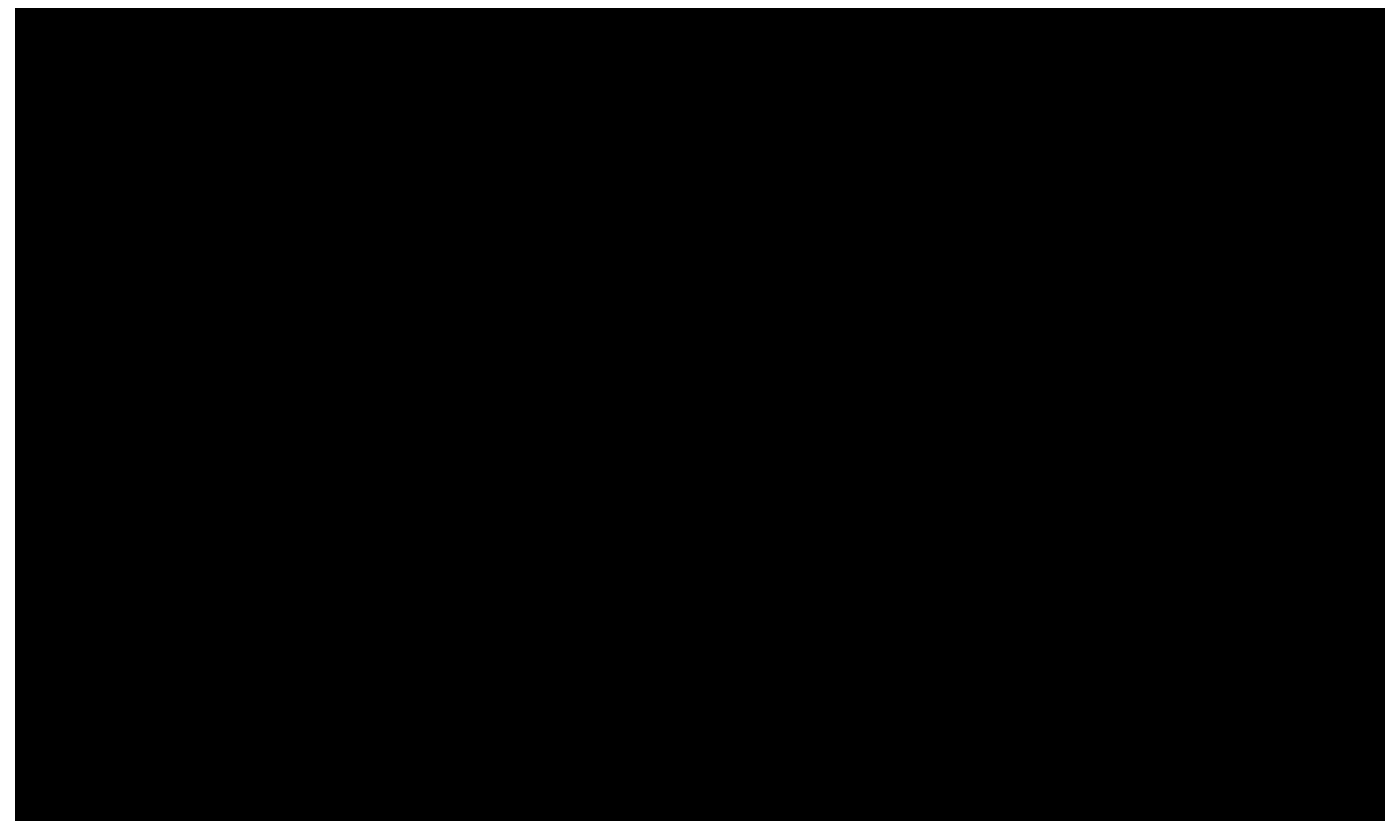
As at December 31, 2018, in accordance with the expected Company cash flow, the Company is in compliance with the above coverage ratios.

On July 2016 the Company withdraw its final drawdown from the credit facilities of the project amount of NIS 243 million in order to finance construction costs and reserve accounts that were included under the credit facility of the project. Following the final drawdown the remaining facility was cancelled.

Within the framework of the Financing Agreements, and at the same time as the signing of the financing agreement, other agreements related to the financing agreement were signed including the following:

a. Capital Injection Agreement and a Subordinated Loan Agreement

These agreements include the obligation of the shareholders towards the Company and the Financing Parties, to inject, separately, and each according to their relative share, from time to time and in parallel with each request to draw from the financing facilities, a total of up to approximately 20% cash (hereinafter: "the Shareholders' Investment"), and this either for the issuance of shares or as shareholders loans, which in any case, will be subordinate to and pledged to the obligations of the Company towards the Financing Parties, according to the terms of the agreements. According to the Capital Infusion Agreement and as security for the commitment of the shareholders to provide their relative portion of the Shareholders' Investment, the shareholders provided on the same date, cash and bank guarantees in the amount of their obligation to inject the Shareholders Investment; this, less any equity provided to the Company prior to that date.



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

1. Financing agreements (cont'd)

a. Capital Injection Agreement and a Subordinated Loan Agreement (cont'd)

The Capital Infusion Agreement includes representations and obligations with regards to the shareholders and the project where their breach is likely to lead, inter alia, to the demand for immediate repayment of the outstanding credit and/or a breach of the Company's obligations and/or to the cancellation of the license. According to the Subordinated Loan Agreement, any shareholder loan will be linked to the CPI and bear interest at an annual rate of 10%. In addition, it was agreed that any distribution to the shareholders, including loans repayment, will be subject to the compliance of the company with the financial covenants as described in the financial agreement (see Note 9). During the period of this statement there was no change in the relative holdings of the shareholders. Within the framework of the financing agreement, there is a lien on all of the issued share capital of the Company in favor of Poalim Trust Services Ltd., as the trustee of the Financing Parties.

b. Bank accounts agreement

The agreement sets the establishment of the project bank accounts and sets out the distribution of the cash flows among the accounts. In addition, the agreement sets out terms and procedures for executing deposits and withdrawals from each account, determines the minimum balances in each of the capital reserves, and sets out the priorities with respect to payments between the accounts and other terms regarding the management of the accounts, including the issue of transfers between accounts.

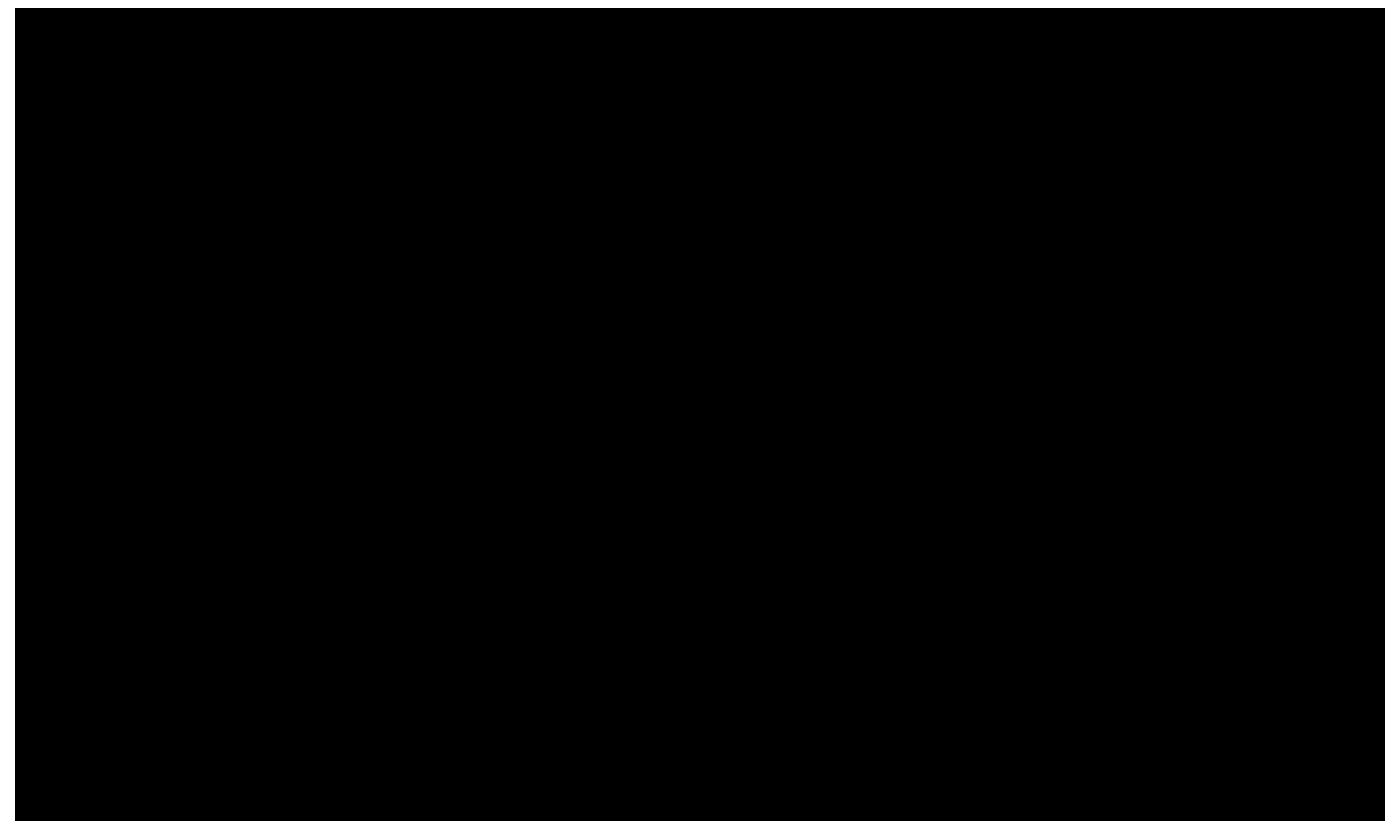
The main fund reserves are a debt service fund, a heavy maintenance fund, a fund for regulation fines guarantees and a distribution fund.

As at December 31, 2018, the deposits for the fund reserves sums to: NIS 202 million debt service reserve, NIS 98 million in the major maintenance fund, NIS 116 million in the distribution fund and NIS 15 million in the fines and regulation fund. These amounts are classified in the statement of financial position as "long-term restricted deposits".

2. Agreement to lease land under operating lease

In 2008 an agreement was signed between the Company and EAIS for the lease of 74.5 dunams of land for the power plant, for a period of 24 years and 11 months from the date of its operation. Also, in 2008, the Company participated in this payment and transferred to EAIS the amount of NIS 3,047 thousand in respect of its relative share in the lease period which were paid by EAIS to ILA. This amount is classified as "long-term prepaid expenses" and is amortized over the lease period.

During 2010 the Company signed on addendum to the land sub-lease agreement. According to the addendum to the agreement, in exchange for the lease of the lands designated for the project, an annual payment of NIS 3,705 thousand will be paid for a period of 25 years. See also Note 16.



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

3. O&M Agreement

An agreement between the Company and the Eilat-Ashkelon Power Plant Services Company - EAPPS ("the Maintenance Contractor") for the operation and maintenance of the power plant for a predetermined monthly payment defined in the Agreement for a period of 24 years and 11 months commencing the date of receipt of the Permanent Production certificate. The Maintenance Contractor will transfer some of the larger maintenance projects to a subcontractor (Zolru O&M) under a separate agreement, however it will retain full responsibility towards the Company with respect to all of its obligations under the agreement.

During 2013, the Maintenance Contractor entered into a sub-contracting agreement with EZOM Ltd, a related party held by related companies. The maintenance and operation will be managed by EZOM Ltd. The maintenance contractor will retain full responsibility regarding his obligations toward the Company.

During August 2016 and in accordance with price review mechanism existing in the O&M agreement there was an update for the prices of some of the items included in the O&M agreement. The update was applied retroactively from the beginning of 2016.

In December 2017 a direct agreement was signed between the company and EZOM which replaced EAPPS. The agreement terms are the same as the agreement with EAPPS.

4. Gas Pipeline Agreement

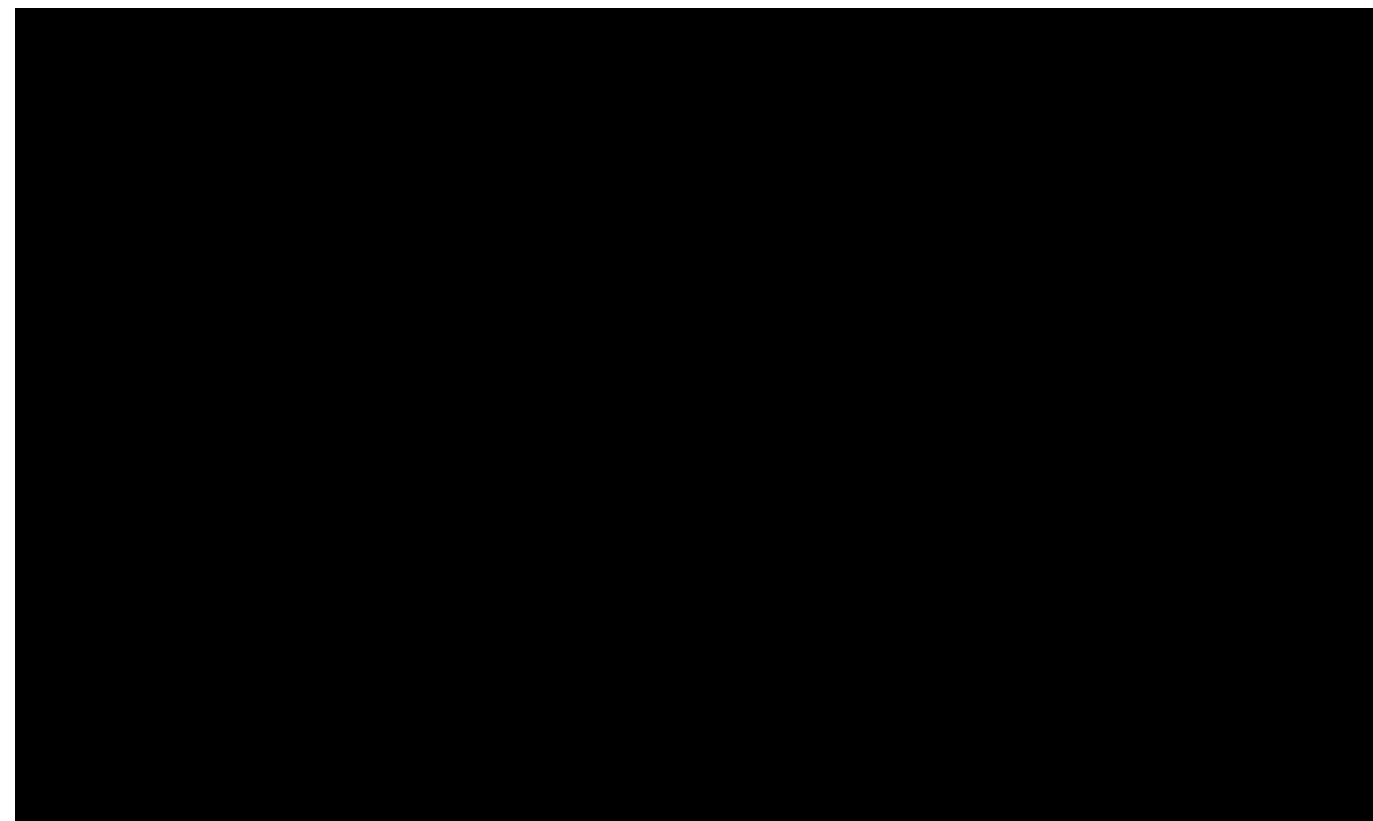
On November 25, 2010, the Company signed a standard agreement approved by the Gas Authority according to which in accordance the government company Israel Natural Gas Lines Ltd. ("INGL") connected the power plant to the natural gas pipeline. Dorad paid connection fees in the amount of NIS 47 million which was recognized as prepaid expenses classified under non-current assets and will be amortized over the operating period. In addition, according to the agreement, Dorad is obligated to pay INGL Commencing from the date of end of the connection in November 2013, a monthly payment for the capacity in the pipeline and a variable payment for gas flowing through the pipeline.

5. Petrol Storage agreement

On June 17, 2013 the company entered into an agreement with Eilat Ashklon Pipeline Company Ltd (hereinafter: "EAPC") regarding storage of petrol in their plant.

According to the agreement, the company will store petrol at the necessary quantities for backup of reserve fuel as required by Electricity Market Regulations and also for the Company's current needs, estimating at 14,000 square meters.

EAPC are the controlling shareholder - of Eilat Ashkelon Infrastructure Services Ltd. who are an interested party and related party, see Note 16.



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

6. Agreement to purchase natural gas

On October 15, 2012 the Company entered into an agreement with the partners in the Tamar license ("Tamar") by which, subject to the fulfillment of suspense conditions provided in the agreement, the Company will purchase natural gas from Tamar for operating the power plant it is constructing in Ashkelon.

As of December 31, 2014, the financial scope of the Company commitment to purchase gas from the date of its flow, as defined in the agreement, to the actual consumption of gas is estimated at NIS 100,800 thousand, this commitment was not recognized in the Company books. However, in accordance with the agreement, if the Company does not actually consume the minimum quantity it has undertaken, it will be required to consume this quantity, in addition to the minimum gas quantity to which the Company is obligated each year during the following three years.

On April 30, 2015 the Company received a notification from Tamar whereby the "interim period", as defined in the agreement, began on May 5, 2015. Pursuant to the agreement, during the interim period supply of the gas to the Company will be subject to the quantities of the natural gas that will be available to Tamar at that time after supply of natural gas to other customers of Tamar with which contracts were signed for supply of natural gas prior to the signing of the agreement with the Company. The interim period will end when Tamar completes, should it ultimately complete, a project for expansion of the supply capacity of a system for treatment and transfer of natural gas from the Tamar reserve, upon existence of the preconditions detailed in the agreement. In the Company's estimation, the impact of Tamar's notification on its activities is not expected to be significant.

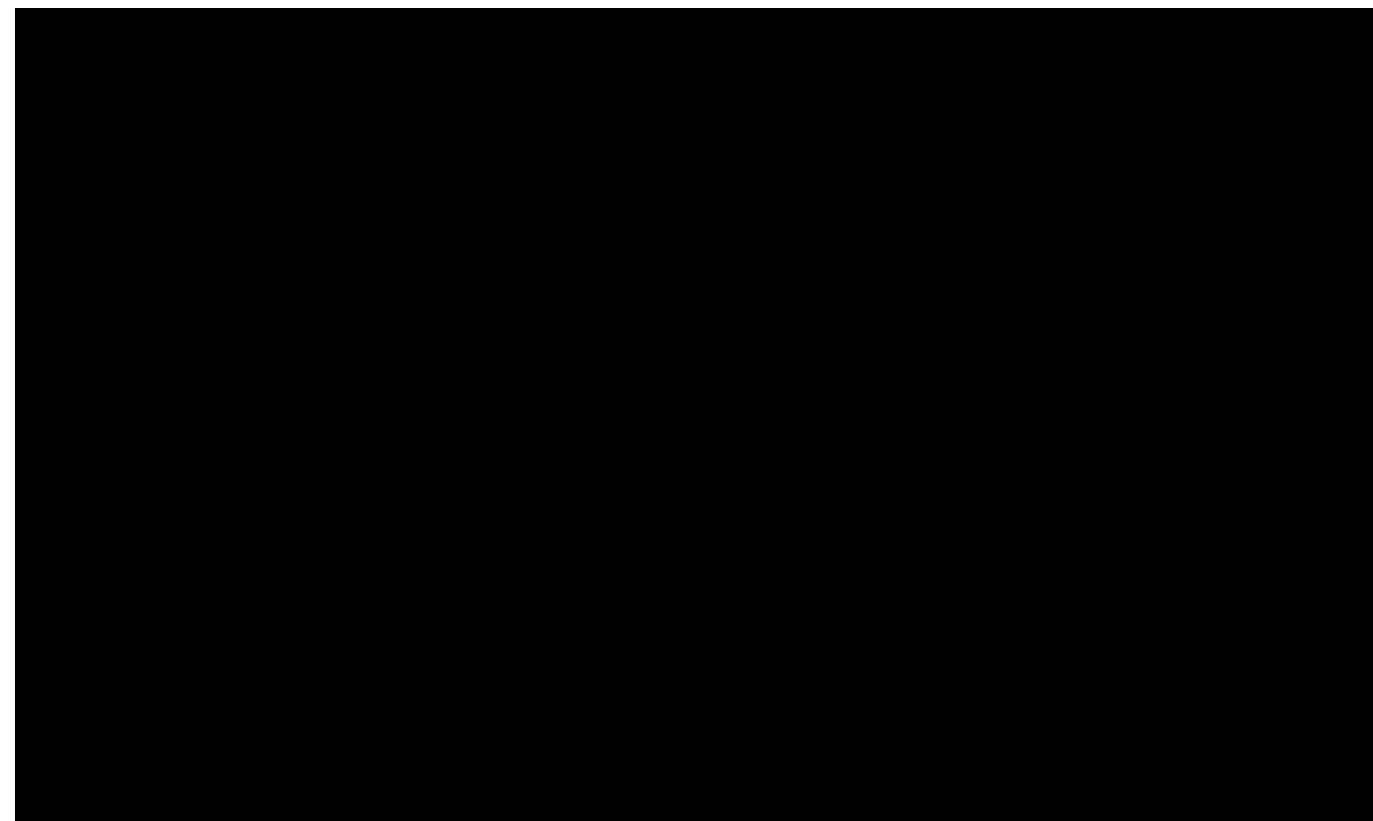
On November 26, 2016 the company received notification from Tamar whereby the interim period end in September 30, 2020.

7. Agreement to sell electricity

As at the reporting date the Company has agreements to sell electricity at a scope of 95% of the production capacity of the power station. The electricity delivery agreements are, mainly, based on a reduced rate compared to the rate applicable to electricity consumers in the general market, as defined by the Authority for Public Services-Electricity.

8. Property tax assessments in respect of the station

The Company sign a settlement agreement with Ashkelon Municipality according to which the annual municipal tax rate Until the year 2025 including was determined.



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

9. Claims by Dori Energy, Zorlu and Edelcom

a) *Petition to Approve a Derivative Claim filed by Dori Energy and Hemi Raphael*

On April 12, 2015 the Company received two letters from representatives of Dori Energy (hereinafter- "The Representatives") that were addressed to the Company's Chairman of the Board. As part of these letters, the company is requested to take legal action in order to reveal the engagement between one of the shareholders of the Company, Zorlu Enerji Elektrik Uretim A.S., and the construction contractor of the Dorad power station, Wood Group (EPC contractor). The aforesaid letters are advance notices to the Company regarding the intention of the representatives to file a derivative claim insofar as their requests are not accepted.

After examining all the facts relevant to the aforesaid letters and consulting with legal counsel, the Company replied to the representatives on May 26, 2015 and rejected their request to take legal action. On July 16, 2015 the representatives filed with the court a motion to approve a derivative claim in the name of the Company against Zorlu (including the representatives of Zorlu on the Company's Board of Directors) and the EPC contractor. In the framework of the motion to which also the derivative claim was attached, the representatives demanded that documents and information regarding the engagement between Zorlu and the EPC contractor be disclosed and handed over.

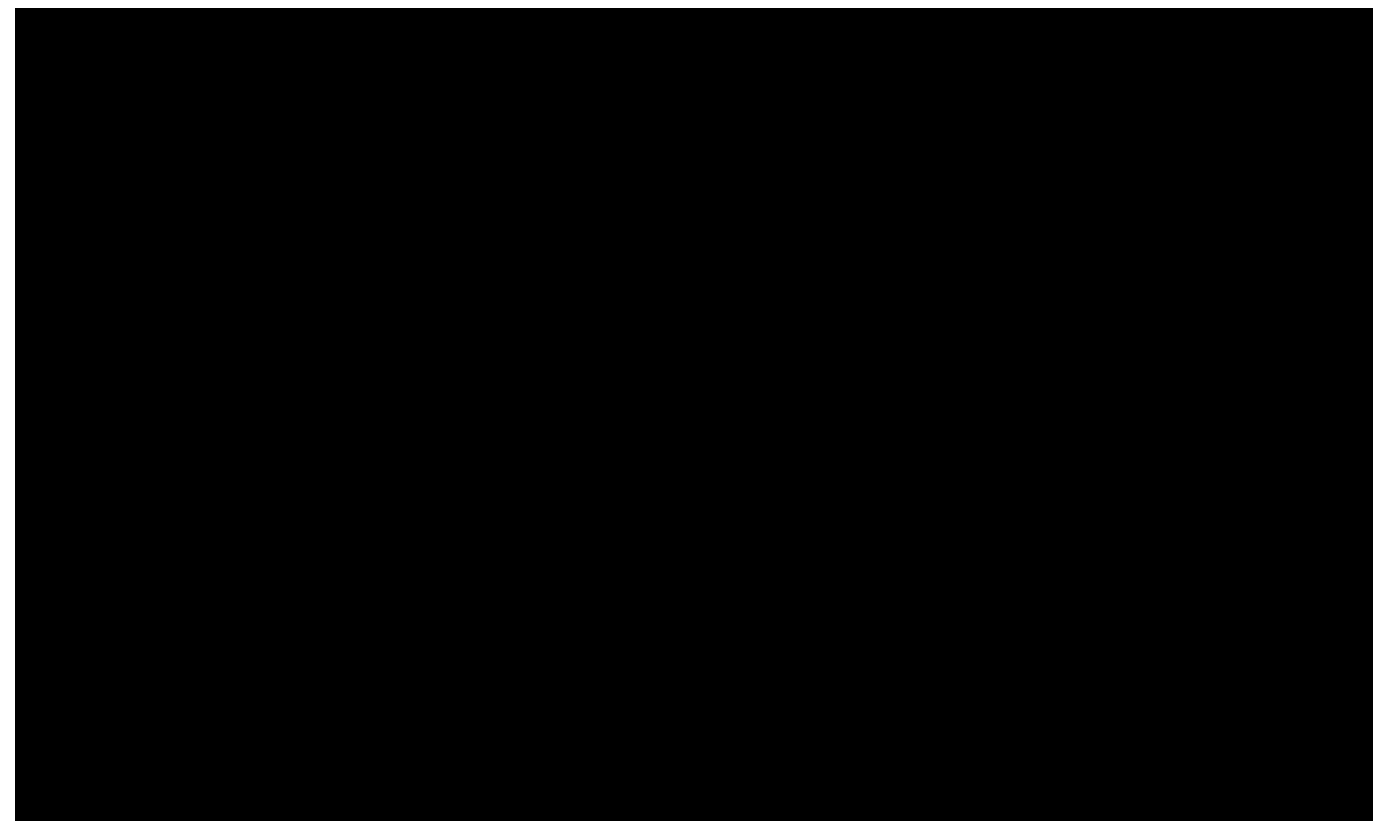
On November 15, 2015 the Company filed its reply in which it reiterated its position that the motion for approval of the derivative claim should be denied.

On January 12, 2016 the representatives filed a motion to amend the motion for approval of a derivative claim (hereinafter: 'the motion for amendment'). The motion for amendment raises new allegations by which Zorlu together with Ori Edelsberg (a director in Dorad) and companies under his control supposedly conspired to deceive the Company by "inflating" the cost of the EPC agreement for the purpose of splitting between them the profits from such "inflation". In addition, in the framework of the motion for amendment it is requested to add Mr. Ori Edelsberg and companies under his control as defendants to the amended motion for approval of a derivative claim and, also, to remove from the claim the representatives of Zorlu on the Company's Board of Directors.

It is noted that the motion for approval of a derivative claim as well as the amended motion for approval of a derivative claim that was attached to the motion for amendment, do not include any monetary relief rather request that the court give the representatives permission to split the relief so that they may file a separate monetary claim in the future on behalf of Dorad with respect to Dorad financial damages, after they receive all the documents and information they are requesting.

On April 20, 2016 a discussion in court focused on the application to amend the derivative claim was held in court. At the end of the discussion, the court accepted the application to amend the derivative claim in a matter that the amended derivative claim is on the agenda.

At the end of July 2016, the respondents filed their responses to the court regarding the amended application of the derivative claim. In accordance with their responses, they deny the Allegations included in the application and according to them they did not do any injustice to the company and therefore the company has no cause of action against them.



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

9. Claims by Dorad Energy, Zorlu and Edelcom (cont'd)

a) *Petition to Approve a Derivative Claim filed by Dorad Energy and Hemi Raphael (cont'd)*

On December 27, 2016, following a negotiation between the parties, an arbitration agreement has been signed between the parties which in accordance, it was agreed to transfer the proceeding to arbitration and on January 3, 2017 The Representatives filed a motion to cancel the proceedings which was approved by the Supreme Court on January 8, 2017.

On April 30, 2017, Zorlu sent a third party notice to the Company, Dorad Energy and Dorad Group, according to which, to the extent Dorad Energy claim is accepted, it will comply with all the rights it had in connection with its right to construct the power plant, including the right to the profits it was supposed to receive under this construction in such a manner that the third parties They would owe Zorlu.

In the Company's estimation, based on the opinion of its legal counsel, at this stage cannot intelligently assess the results of the arbitration proceedings.

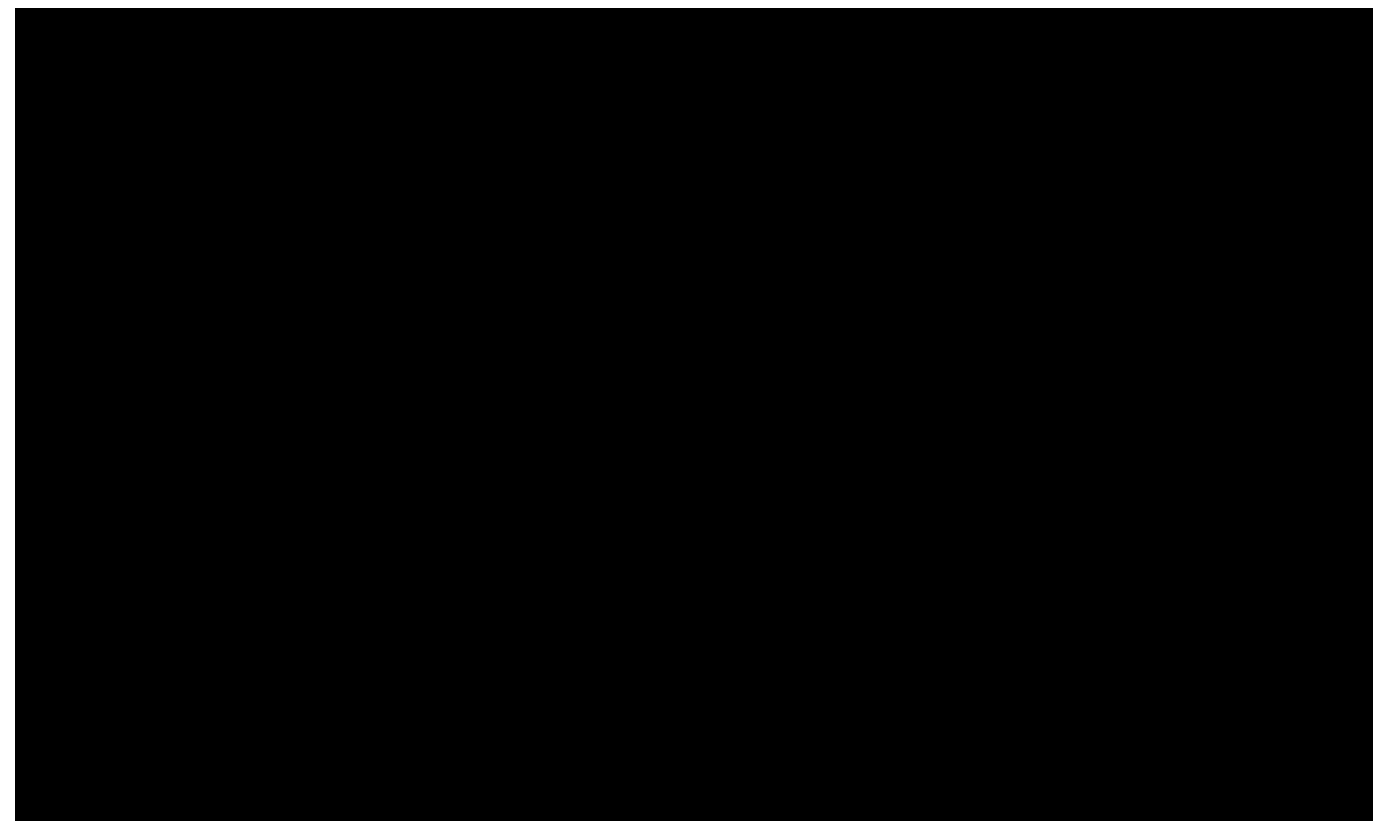
b) *A letter from Zorlu*

On December 27, 2015 the Company received a letter from the representatives of Zorlu that is addressed to the Company's board of directors (hereinafter: "Zorlu's letter"). Most of Zorlu's letter refers to the execution of civil engineering work in a project of Dorad by the Amos Luzon group Ltd. and U. Dorad Construction Ltd. (hereinafter and together: "Dorad") whose services were retained by the EPC contractor. According to the letter of Zorlu, Dorad did not fulfill its commitments regarding execution of the civil engineering work in Dorad's project which resulted in delays in construction of the power station. Zorlu is requesting that the Company exercise its legal rights against Dorad and the representatives, and insofar as its requests do not receive a positive reply, Zorlu plans to file a motion for approval of a derivative claim.

On February 3, 2016 the Company replied to Zorlu's letter and advised that it requires an additional period beyond that prescribed in the law to examine the matters referred to in Zorlu's letter. Zorlu replied that it agrees to the Company's request for additional time. This application was added to the arbitration process. See section (d) below.

c) *Petition to Approve a Derivative Claim filed by Edelcom*

On July 25, 2016, Edelcom submitted an application for approval of a derivative claim on behalf of the Company against Amos Luzon group, currently set Amos Luzon Development and Energy Ltd. (hereinafter: "the Dorad Group"), Dorad Energy and Ellomay Clean Energy Ltd. (hereinafter: "Ellomay"). Edelcom's claim is about an entrepreneurship agreement that was signed on November 25, 2010 between the Company and Dorad Group, pursuant to which in consideration for the management and entrepreneurship services of the power station project the Dorad Group received from the Company payment in the amount of NIS 49.4 million and it undertook to continue holding, directly or indirectly, at least 10% of the Company's share capital for a period of 12 months from the date the power station is handed over to the Company by the construction contractor (hereinafter and respectively: "the entrepreneurship agreement" and "the entrepreneurship fee"). According to Edelcom, Dorad Group's holdings in the Company are through Dorad Energy, which on November 25, 2010 entered into a triangular investment agreement between Dorad Energy, Ellomay and the Dorad Group (hereinafter: "the Dorad Energy investment agreement"). In addition, according to Edelcom, when the Dorad Energy investment .



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

9. Claims by Dori Energy, Zorlu and Edelcom (cont'd)

c) Petition to Approve a Derivative Claim filed by Edelcom (cont'd)

agreement was signed Ellomay received management rights in Dori Energy that are equal to those of the Dori Group while at the same time Ellomay formally held only 40% of the issued share capital of Dori Energy and therefore it was expected that the management rights granted to it would correspond to its holding rate in Dori Energy at that time. In view of the aforesaid, according to Edelcom the Dori Group holdings have fallen below 10% and it has therefore breached its commitment according to the entrepreneurship agreement.

On January 4 2017, following a signed arbitration agreement between the parties, a request was filed to the court by the parties for cancellation of the claim and the claim will be heard within the arbitration proceedings. In the Company's estimation, based on the opinion of its legal counsel, at this stage cannot intelligently assess the results of the arbitration proceedings.

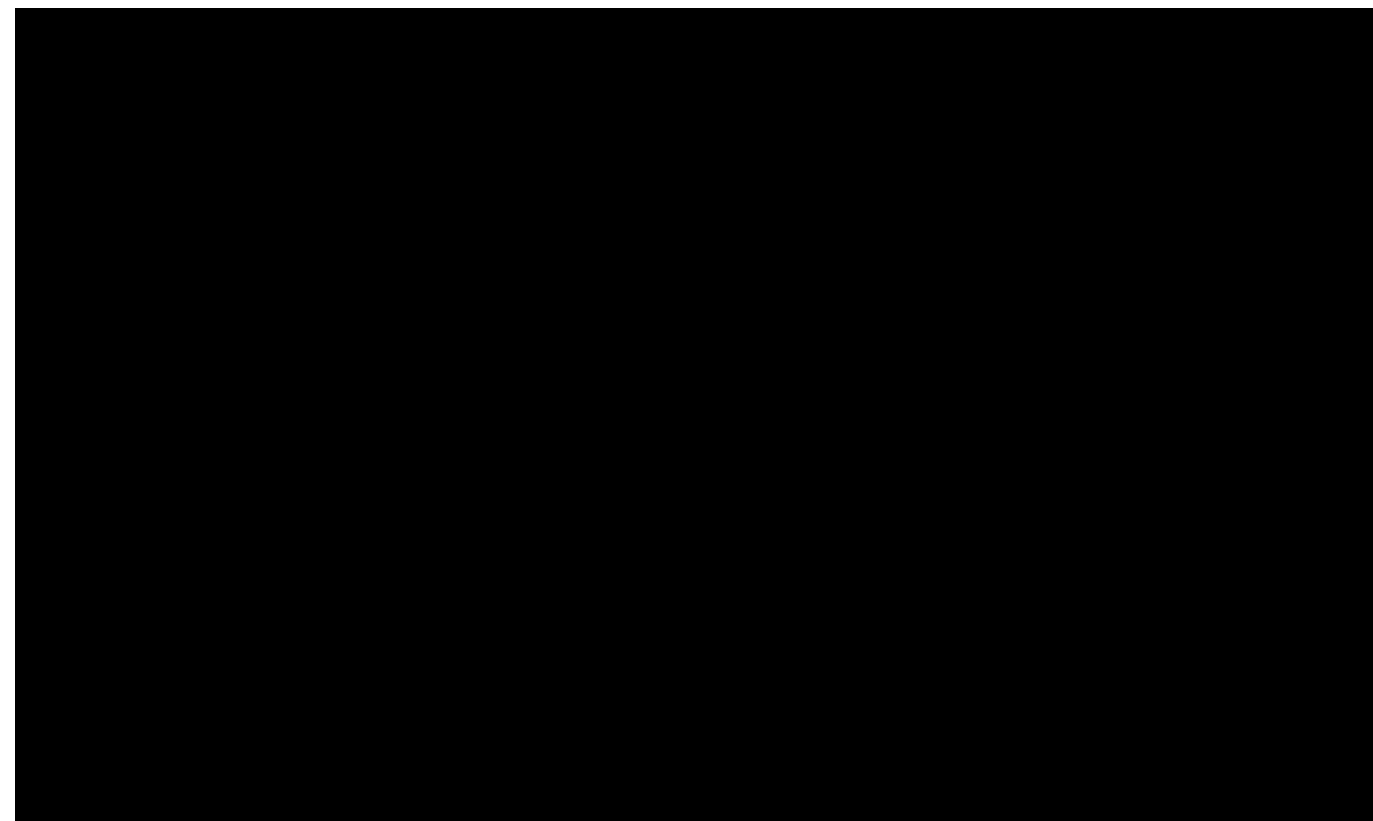
d) Statement of Claim filed by Edelcom

On July 27, 2016, Edelcom submitted a lawsuit against Dori Group, Dori Energy and Ellumei ("Defendants"), in respect of the transfer of company's shares in contrary to the provisions of the shareholders' agreement signed between the Company and its shareholders on November 25, 2010 ("Shareholders Agreement"). According to Edelcom, the defendants interpreted unlawfully and in bad faith the provisions of the shareholders' agreement while contracted in investment agreement followed by an allocation of shares made in contrary to the provisions of the shareholders agreement.

Edelcom claims for a various of declaratory remedies and an operative remedy which will enforce of the sanctions set forth in the shareholders agreement, an order directed to the company and ordered her to withhold any payment due to Dori Energy by virtue of its status as a shareholder in the company, including dividends or repayment of shareholders' loan, and an order addressed to the company and ordered her to suspend Mr. Menachem Refael role as a director of the Company from Dori energy and prohibit Mr. Rephael be present or vote in meetings of the Board.

The parties agreed that this claim will be transferred to the arbitration proceedings. On March 28, 2018, Zorlu and Edelcom filed a motion to remove the arbitrator from its position. On October 22, 2018, the District Court rejected the demand that the arbitrator be removed from its position. On February 12, 2019, the Supreme Court accepted the appeal of Zorlu and Edelcom and the arbitrator was removed from its position.

In the Company's estimation, based on the opinion of its legal counsel, at this stage cannot intelligently assess the results of the arbitration proceedings.



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

10. Faults in production units

In 2016 damages were discovered in two of the 12 gas turbines of the Company's power plant in a manner that these turbines were temporarily got out of service. In 2017 damages were discovered in additional three gas turbines. Until the turbines are repaired, the Company leases, as necessary, alternative turbines in a manner that to the Company's estimation, the operating activity is not expected to be a materially affected. In 2016 the Company recognized an indemnification property in the amount of USD 4.4 million regarding the damaged turbines and in 2017 the Company recognized an additional indemnification property in the amount of USD 20.9 million. In 2017 the company received from the insurance company an amount of USD 12.2 million regarding these indemnification properties. In 2018 the company received additional amount of USD 9.4 million. The Company estimates that it has an adequate insurance coverage for the consequences of the mentioned damages, and it is expected that the company will receive the full balance amount of USD 3.7 million. On November 21, 2018, a malfunction was discovered in the generator of one of the two steam turbines of the power station as a result that turbine was temporarily out of use until its repair in February 2019. This failure did not have materially effect on the Company operations.

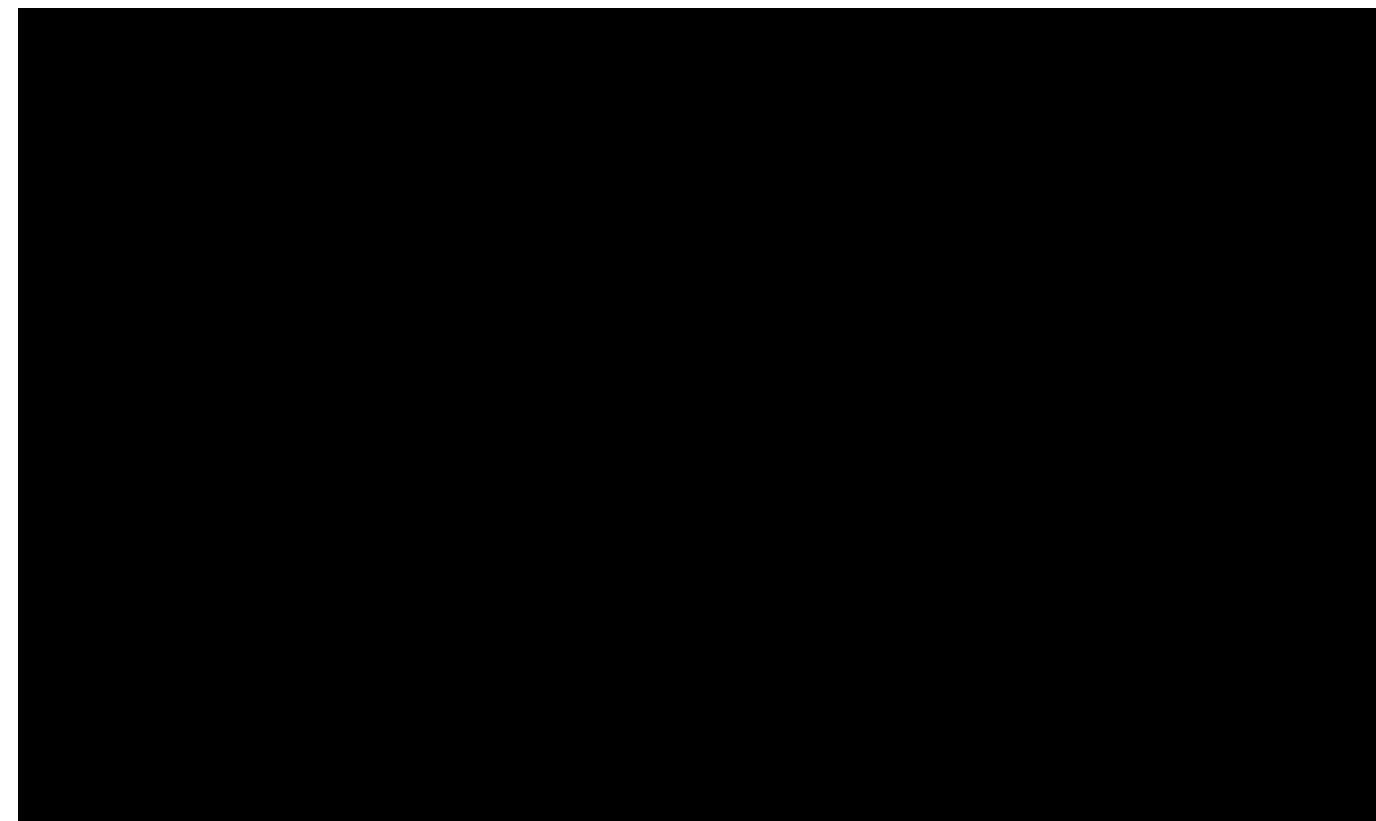
11. Petition of the Forum of Private Electricity Producers

On June 21, 2017, the Forum of Private Electricity Producers from Natural Gas and the State of Israel petitioned the High Court of Justice in two separate petitions against the National Labor Court, inter alia, in light of the approval by the National Labor Court allows the workers committee of IEC to take organizational measures including actions affecting the private electricity producers. On the same day the Supreme Court decided that the petitions would be heard on a consolidated basis. On July 10, 2017, the Company filed its response, in support of the Forum's petition, and joined its arguments and the requested remedies. On July 20, 2017, a hearing was held in the Supreme Court, in which the workers committee of IEC announced that it was suspending the sanctions unilaterally for a period of 60 days in which it requested that the State and the Israel Electric Company conduct negotiations and consultations with it.

On January 4, 2018, the State submitted a notice stating that the state consultation with the IEC and the workers representatives regarding the reform in the outline of the IEC, and regarding the guidelines of the planned outline of workers' rights, has progressed significantly but has not yet reached collective agreements. Therefore, the State requested that the dates for the filing of arguments in the case extended. The court ordered the state to submit an update notice by May 27, 2018. On June 3, 2018, the State reached a collective agreement between IEC and the "New Histadrut" as a result, On July 4, 2018, the Court rejected the Forum's petition.

12. Acquisition of natural gas

On October 30, 2017, the Company signed an agreement with Energian Israel Ltd. regarding the acquisition of natural gas, in a cumulative volume of approximately 6 BCM over a period of 14 years, from the Karish and Tanin reserves held by them and whose completion is expected to be by the end of 2020. The company will purchase about half of the gas required to operate the company power plant, the rest of the demand will continue to be supplied by Tamar. According to the agreement, if the Company does not actually consume the minimum quantity it has undertaken, it will be forced to consume this quantity. On November 2018, all the suspending conditions included in the agreement were fulfilled.



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

A. Commitments (cont'd)

13. PUA decision on regulating the use of fuels in the electricity sector

On June 12, 2017, the Electricity Authority reached a decision on regulating the use of fuels in the electricity sector, and within the framework of this decision it was determined that the Electricity Authority will recognize the full price of natural gas for private electricity producers with interruptible gas agreements with the gas supplier retroactively from March 2016. This decision updates the Electricity Authority's previous decision from November 5, 2012, in which the Electricity Authority decided that it would recognize only 90% of the price of natural gas for private electricity producers who purchase natural gas from the gas supplier under an interruptible agreement.

In addition, in the framework of that decision, an arrangement was set for the use of fuels for the implementation of a general loading plan whereby the system administrator should semi-annually plan the total quantity of diesel and liquid natural gas required for the electricity sector so that liquid natural gas (if required) will be allocated to the producer with the most expensive gas agreement, and diesel will be allocated according to the relative share of that facility out of the total production of dual-fuel facilities in the electricity sector in the previous calendar year. The aforesaid regulation also defines the required availability of producers for the use of diesel fuel and states that the sale of gas by the IEC to gas consumers outside of the electricity sector will not take place at times when there is a shortage of gas in the electricity sector. The Company estimates that no more extensive operation of diesel fuel is expected than in previous periods

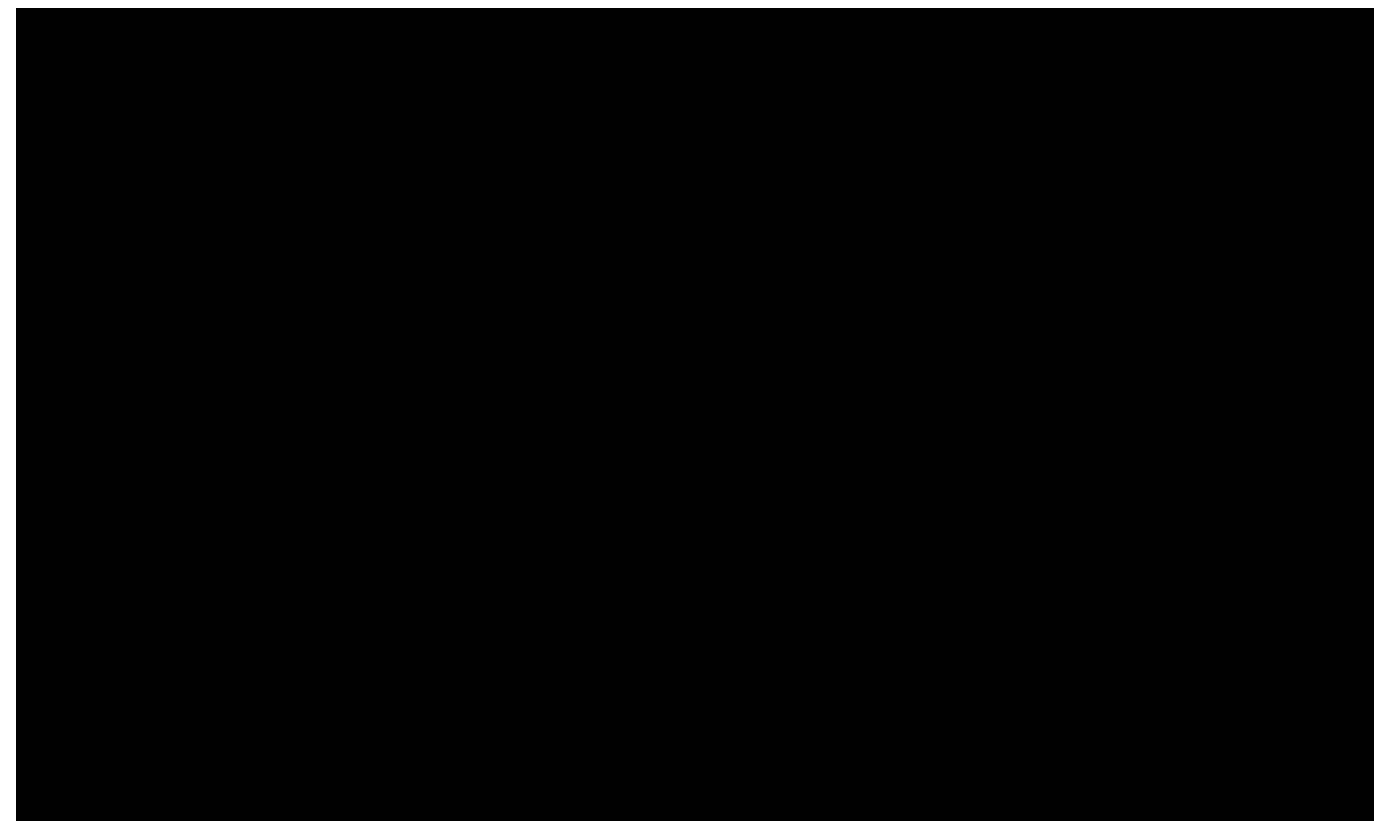
14. bringing forward turbines maintenance

In 2017, the Company decided to bring forward the maintenance of the gas turbines, some of which were carried out in 2017 and some were advanced and carried out during 2018. Accordingly, the Company updated in 2017 the useful life of the fixed assets in respect of the maintenance components of these turbines and recorded in 2018 additional depreciation expenses in the accounting books Of NIS 2 million (2017 NIS 20.1 million).

B. Bank guarantees

As at the date of the report, the Company provided, through its shareholders, based on their proportionate holdings in the Company and pursuant by the financing agreements bank guarantees to INGL, the Public Utilities Authority ("PUA"), for purposes of compliance with the terms of the licenses granted to the Company, and in favor of the System Management Unit in the Electric Company, as required under the Company's agreement with the Electric Company, and in accordance with the guidelines published by the PUA. Subsequent to the date of the report, on January 2018, there was an update to the amount of the guarantee provided to system manager whereas the total updated amount is NIS 154 million.

Notes to the Financial Statements as at December 31, 2018



Note 11 - Contingent Liabilities, Commitments and Guarantees (cont'd)

C. Liens

During the month of January 2011, the Company placed liens on its assets as collateral for the obligations of the Company and its shareholders as follows:

1. Fixed lien – A fixed lien and first priority mortgage and an assignment by way of lien on all the assets and rights with respect to the power plant in Ashkelon (“the Project”) and all as detailed in the mortgage deed and its appendices.
2. Floating lien - An unlimited first priority floating lien on all of the rights and assets of the borrower, any object and/or equipment and any other tangible or intangible asset of any type as specified in the financing agreements.
3. Lien on account of guarantees to third parties – a fixed lien, mortgage and assignment by way of a first priority lien, and a second priority lien on all assets and rights with respect to the account of guarantees including the funds, the securities, the documents and the notes of others of any type that will be deposited in the account from time to time, as detailed in the mortgage deed and all of its appendices.
4. Lien on the land of the project– A fixed lien and first priority mortgage and an assignment by way of lien on all of the rights, existing and future, of the pledger with no exceptions, per the development agreement that was signed between the pledger and the Israel Lands Administration (“ILA”) with respect to the land.

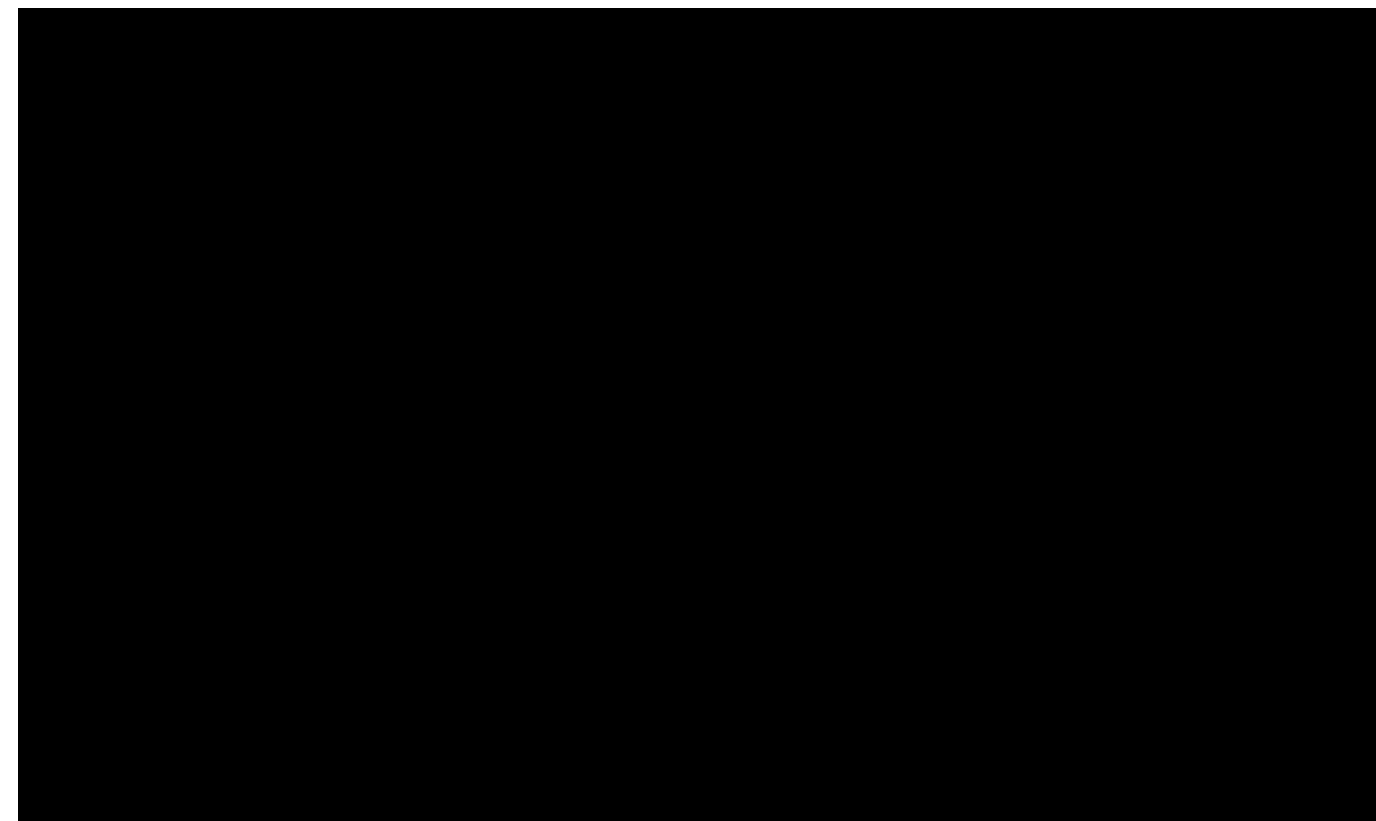
Note 12 - Share Capital

Composition of the share capital in nominal values:

	Number of shares	
	December 31	
	Authorized	Issued and paid-in
		Issued and paid-in
		2018
		2017
Ordinary shares of NIS 1 par value	500,000	10,640
		10,640

See Note 11A(1)(a) regarding an issuance of shares against a conversion of loans into equity.

Notes to the Financial Statements as at December 31, 2018



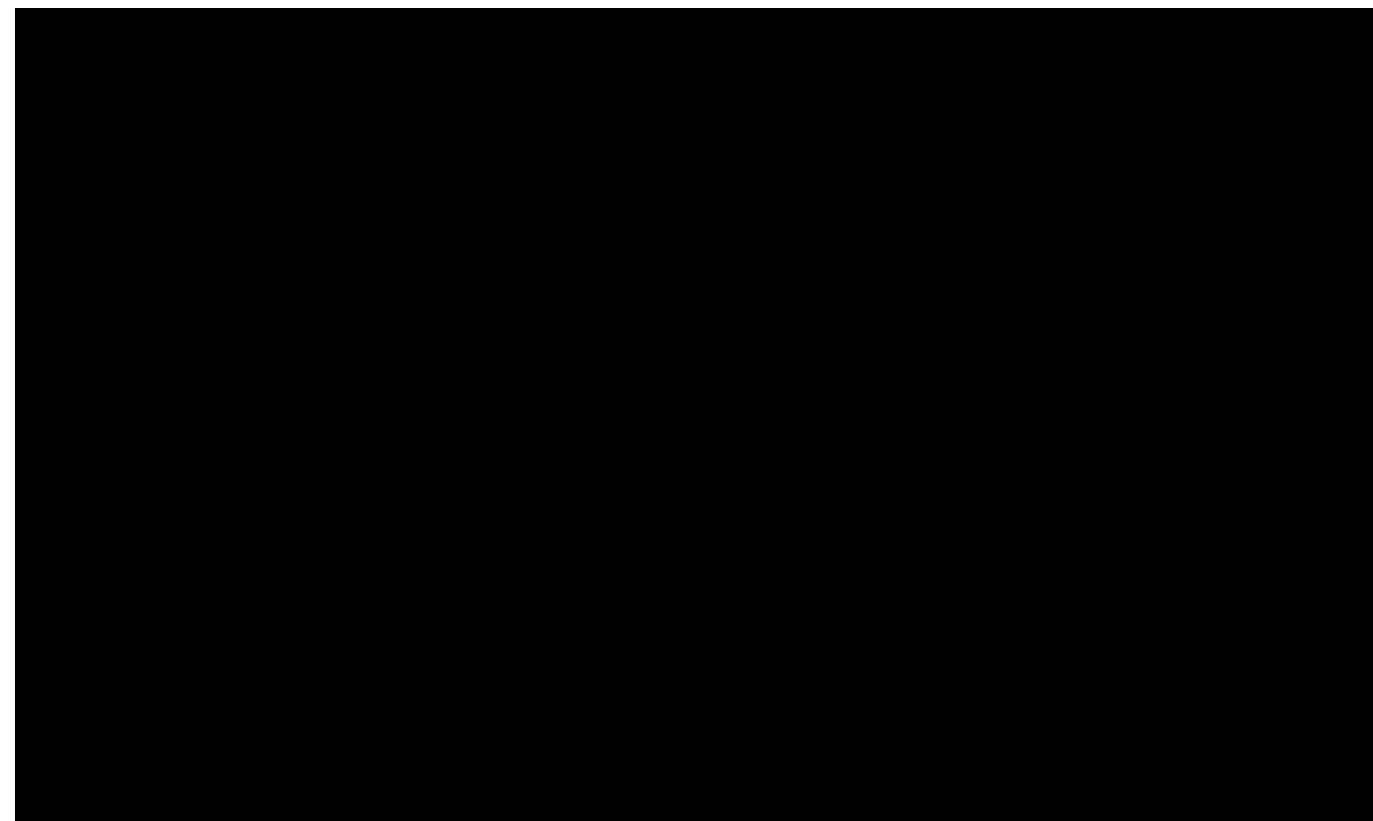
Note 13 - General and Administrative Expenses

	For the year ended December 31		
	2018	2017	2016
	NIS thousands		
Wages and related expenses	11,141	9,562	9,407
Rental and office maintenance	2,971	2,805	2,233
Profession services	6,268	5,800	6,592
Depreciation	196	420	755
Other	164	125	191
	<u>20,740</u>	<u>18,712</u>	<u>19,178</u>

Note 14 - Financing Income and Expenses, Net

	Year ended December 31		
	2018	2017	2016
	NIS thousands		
Financing income			
Revaluation of derivatives	11,536	-	-
Net foreign exchange gain	9,753	-	3,944
Other	3,361	3,195	3,081
	<u>24,650</u>	<u>3,195</u>	<u>7,025</u>
Financing expenses			
Revaluation of derivatives	-	11,788	2,663
Interest expense on bank loans	212,367	200,883	186,139
Interest expense on loans from related parties	12,577	18,676	35,267
Net foreign exchange loss	-	12,452	-
Bank commissions	2,581	785	1,455
Other financing expenses	463	538	530
	<u>227,988</u>	<u>245,122</u>	<u>226,054</u>
Net financing expenses	<u>203,338</u>	<u>241,927</u>	<u>219,029</u>

Notes to the Financial Statements as at December 31, 2018



Note 15 - Financial Instruments

A. Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents quantitative and qualitative information about the Company's exposure to each of the above risks, and the Company's objectives, policies and processes for measuring and managing risk.

In order to manage these risks and as described hereunder, the Company executes transactions in derivative financial instruments. Presented hereunder is the composition of the derivatives:

	December 31	
	2018	2017
	NIS thousands	
Derivatives presented under current liability		
Forward exchange contracts used for economic hedge	387	(1,191)

B. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Financial Committee, which is responsible for defining a risk management policy. The committee reports regularly to the Board of Directors on its activities.

C. Credit Risk

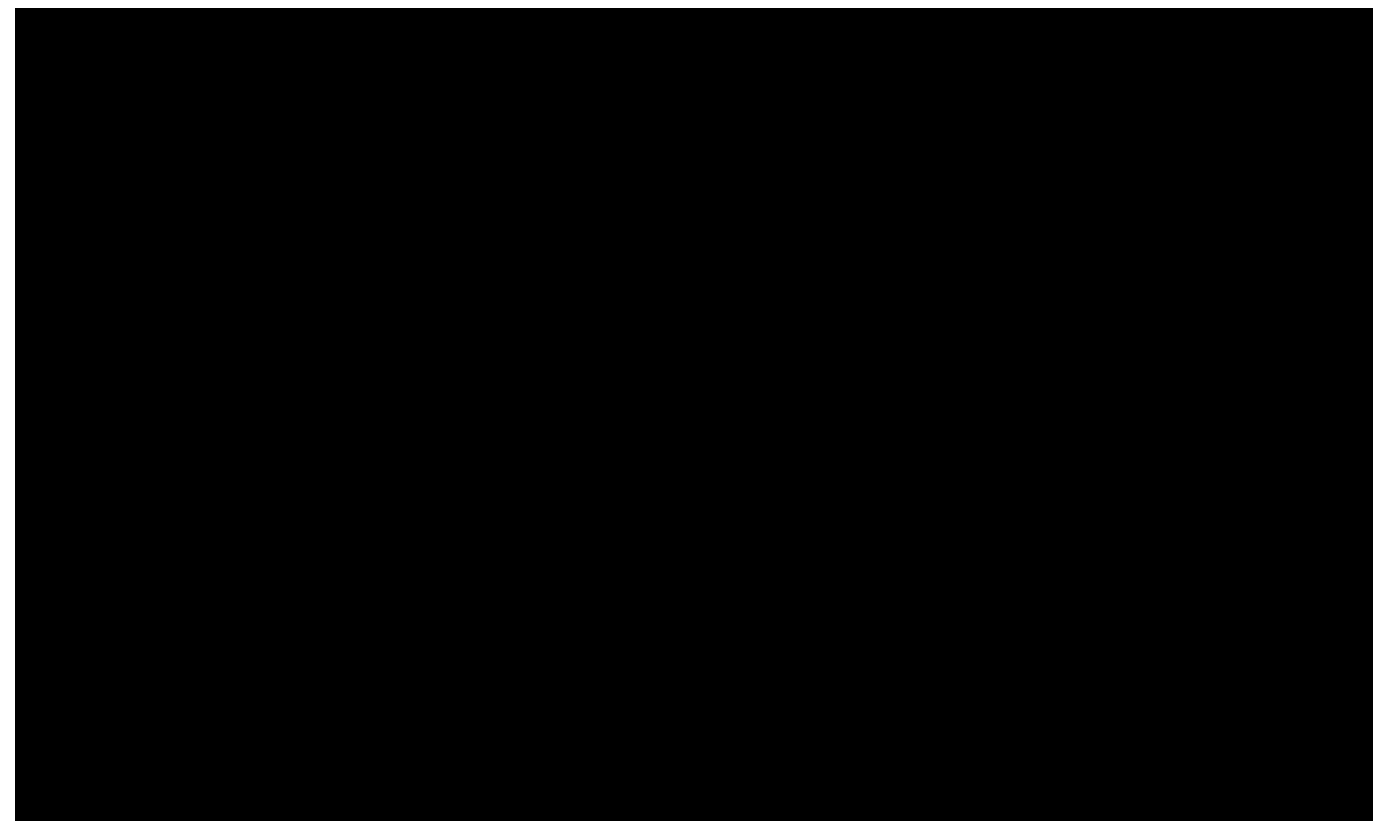
Credit Risk is a risk for a financial loss caused to the company if the counterparty of the financial instrument fails to meet his contractual obligations.

Cash and cash equivalents

As at December 31, 2018, the Company has cash and cash equivalents in the amount of NIS 117,220 thousand (December 31, 2017 - NIS 184,182 thousand). The Company's cash and cash equivalents are deposited with a financial institution having a high credit rating (international rating scale).

Restricted deposits

As at December 31, 2018 the Company has deposits in the amount of NIS 431,096 thousand that are restricted according to the financing agreements (December 31, 2017 – NIS 405,306 thousand). The Company's restricted deposits are held with a financial institution having a high credit rating (international rating scale).

**Note 15 - Financial Instruments (cont'd)****C. Credit Risk (cont'd)**Trade and other receivables (Current assets)

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company has established a credit policy under which each new customer is analyzed individually for credit worthiness. The Company's review includes external ratings, when available.

As at December 31, 2018 no impairment was recorded.

Bodies that provided financing for the project's construction

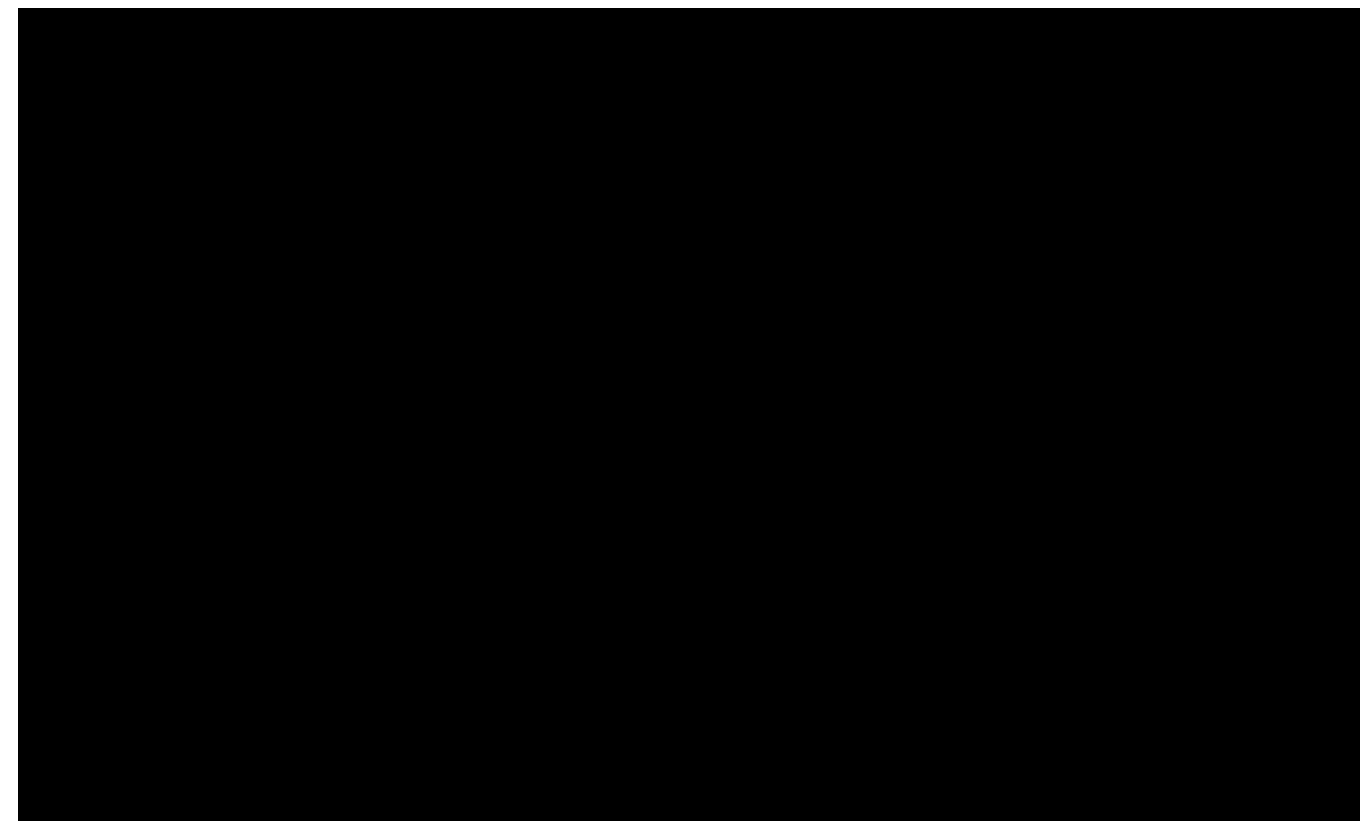
Credit risk from bodies that provided financing to the Company for the project's construction in respect of the financing agreements as described in Note 11A(1). These bodies have a high credit rating.

D. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has contractual commitments due to financing agreements, O&M agreement, the Gas Purchase agreement and the Gas Pipeline agreement. For further information see Note 11.

Notes to the Financial Statements as at December 31, 2018



Notes to the Financial Statements as at December 31, 2018

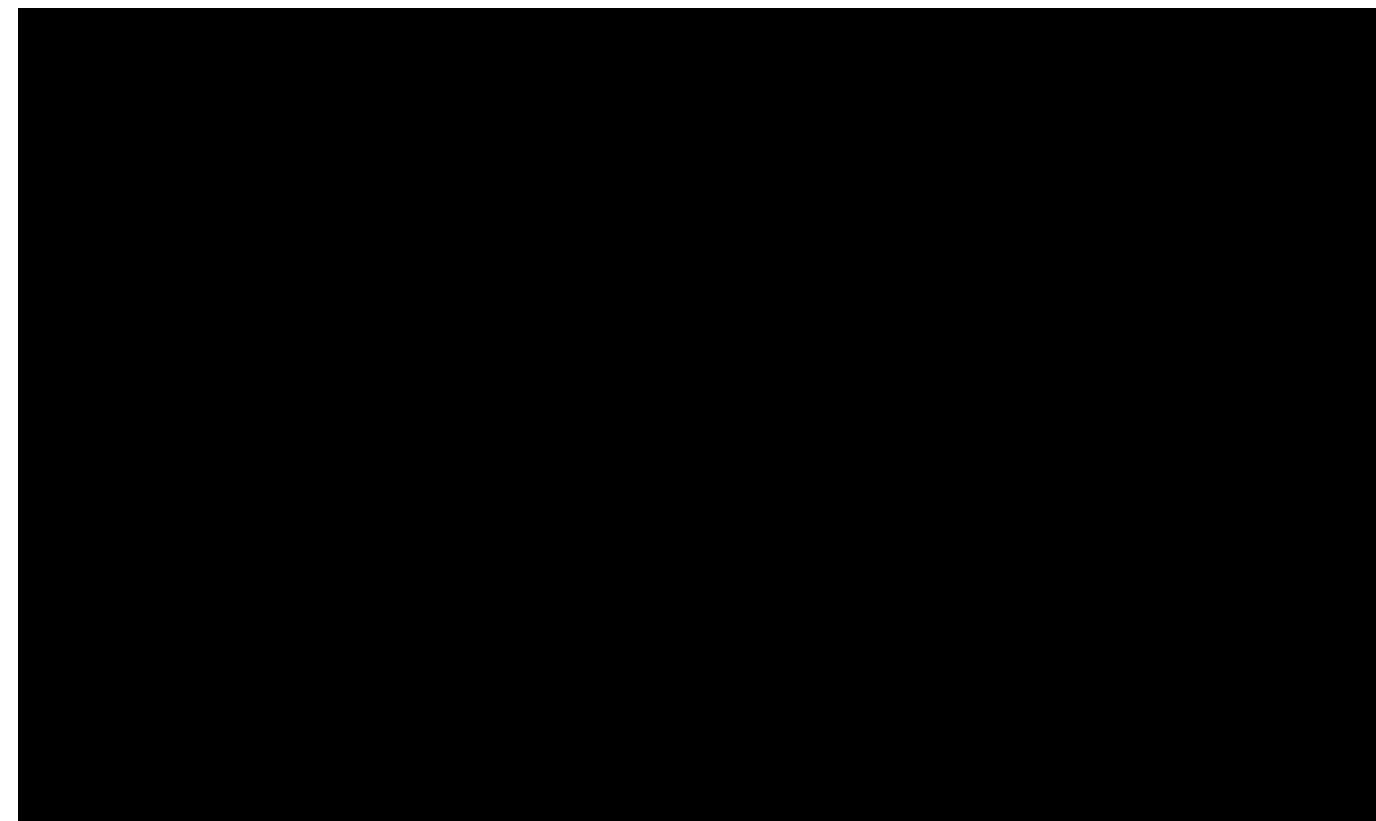
Note 15 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

The following are the contractual maturities of financial liabilities at undiscounted amounts and based on the rates at the reporting date, including estimated interest payments.

	December 31, 2018						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	NIS thousands						
Non-derivative financial liabilities							
Trade payables	340,829	340,829	340,829	-	-	-	-
Other payables	5,104	5,104	5,104	-	-	-	-
Loans from banks	3,233,836	4,233,003	187,591	170,723	355,021	1,093,388	2,426,280
Loans from related parties	17,805	19,585	-	19,585	-	-	-
	<u>3,597,574</u>	<u>4,598,521</u>	<u>533,524</u>	<u>190,308</u>	<u>355,021</u>	<u>1,093,388</u>	<u>2,426,280</u>

Notes to the Financial Statements as at December 31, 2018



Note 15 - Financial Instruments (cont'd)

D. Liquidity risk (cont'd)

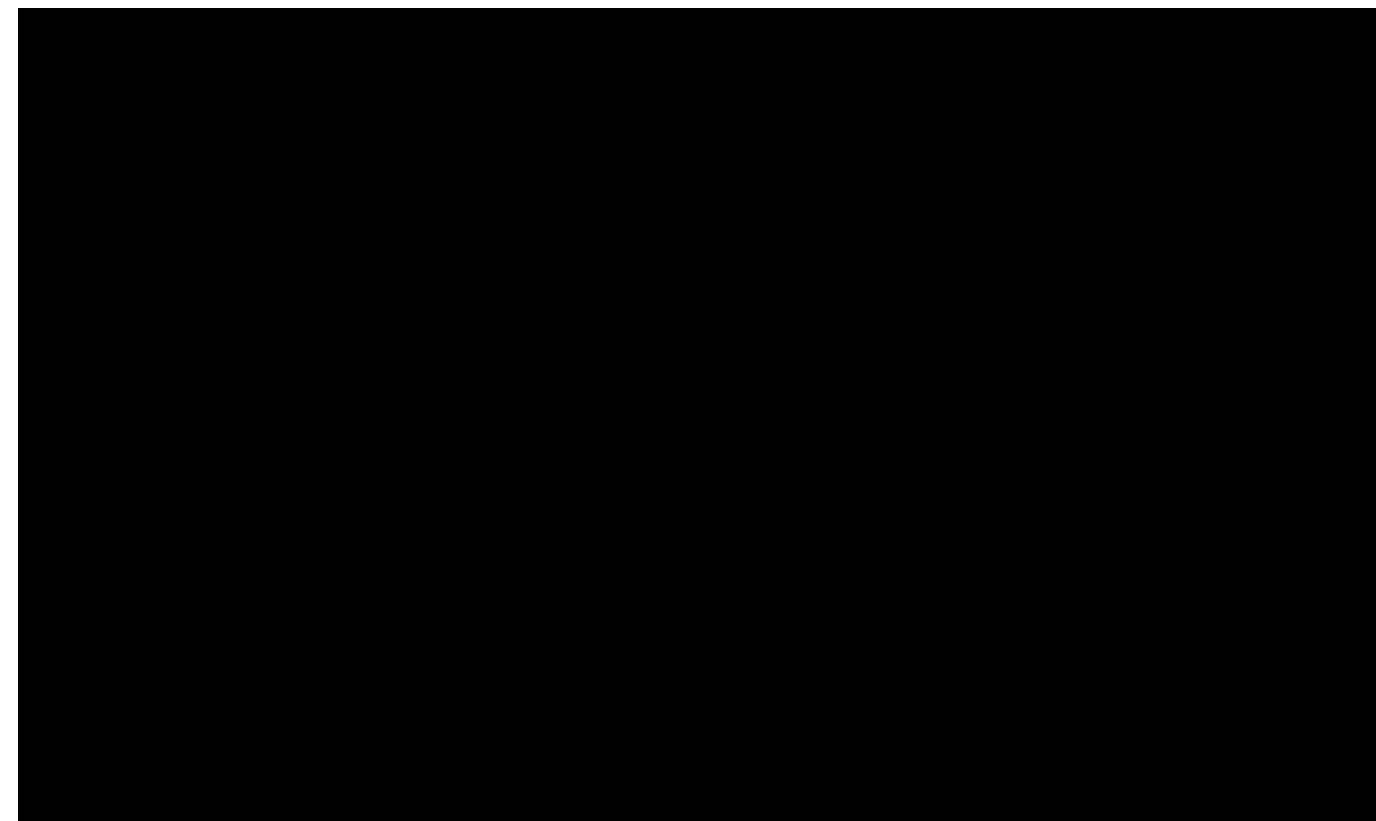
	December 31, 2017						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	NIS thousands						
Non-derivative financial liabilities							
Trade payables	415,798	415,798	415,798	-	-	-	-
Other payables	2,264	2,264	2,264	-	-	-	-
Loans from banks	3,391,692	4,690,040	189,589	176,932	371,251	1,126,690	2,825,578
Loans from related parties	195,228	225,275	140,464	-	84,811	-	-
	<u>4,004,982</u>	<u>5,333,377</u>	<u>748,115</u>	<u>176,932</u>	<u>456,062</u>	<u>1,126,690</u>	<u>2,825,578</u>

E. Market risk

Market risk is the risk that changes in market prices will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

As of December 31, 2018, and since the beginning of commercial operation of the power plant, the management estimates that the main risks are changes in regulations applicable to the area of operations as approved by the electricity authority, a change in the gas purchase costs and other changes in the electricity and gas market, political and security events.

Notes to the Financial Statements as at December 31, 2018



Note 15 - Financial Instruments (cont'd)

E. Market risk (Cont'd)

(1) Linkage and foreign currency risk

As a result of the Company's agreement with the construction contractor, maintenance contractor and the gas suppliers, as described in Note 11, the Company is exposed to changes in the dollar/NIS exchange rate. In order to reduce this exposure, the Company entered into forward transactions to purchase dollars for NIS. As a result of loans from banks and shareholders that are linked to the CPI, the Company is exposed to changes in the CPI.

(a) The exposure to linkage and foreign currency risk

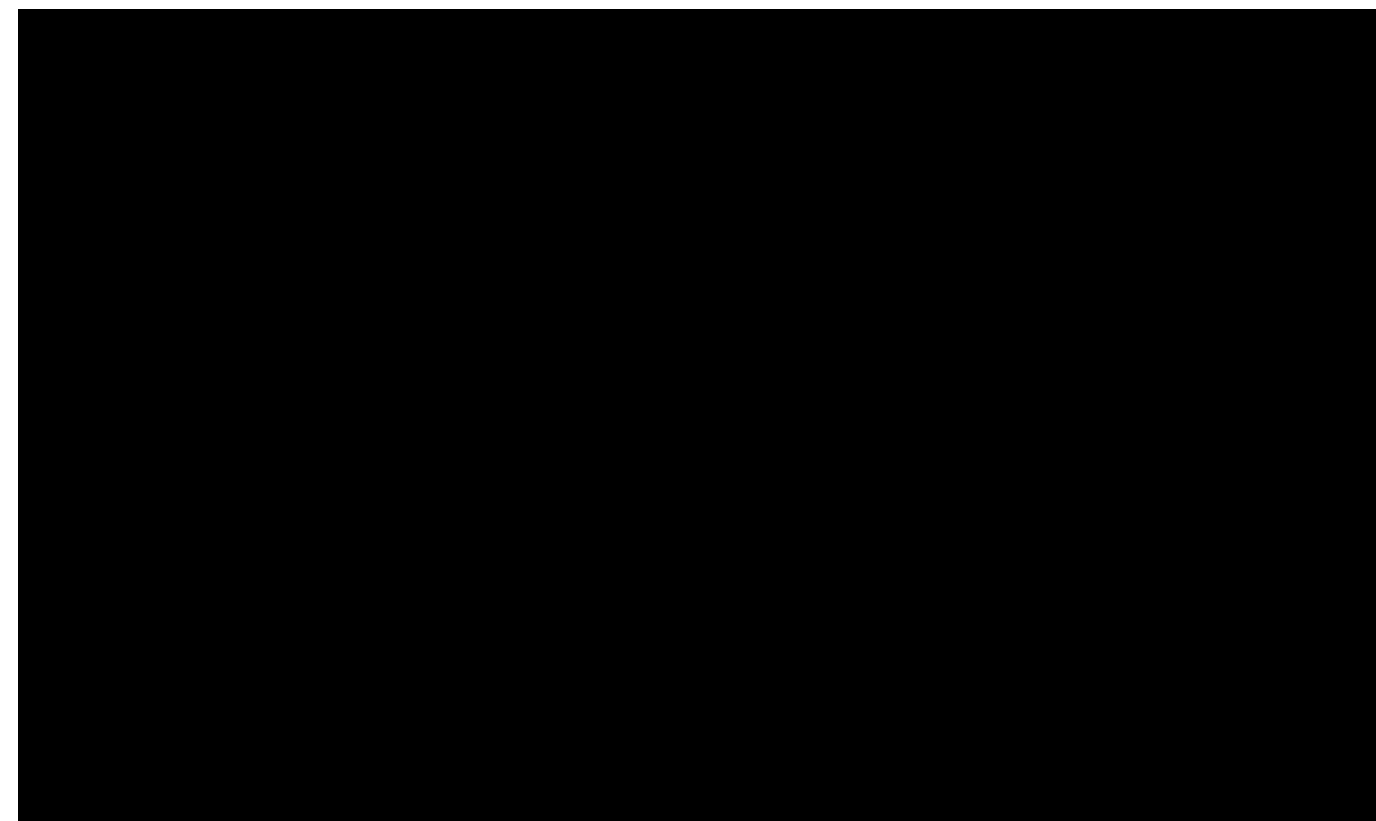
The Company's exposure to linkage and foreign currency risk is as follows:

	December 31, 2018					Total
	Non-financial	Unlinked	CPI-linked	US Dollar	EURO	
NIS thousand						
Financial assets and financial liabilities:						
Current assets:						
Cash and cash equivalents	-	115,969	-	1,251	-	117,220
Trade receivables (*)	-	297,997	-	-	-	297,997
Other receivables	56,417	-	-	-	-	56,417
Financial derivatives	-	-	-	387	-	387
Non-current assets:						
Restricted deposits	-	291,015	-	140,081	-	431,096
Prepaid expenses	41,704	-	-	-	-	41,704
Fixed assets	3,869,800	-	-	-	-	3,869,800
Intangible assets	3,265	-	-	-	-	3,265
Current liabilities:						
Current maturities of loans from banks	-	-	217,254	-	-	217,254
Current maturities of loans from related parties	-	-	17,805	-	-	17,805
Trade payables	-	292,171	-	48,658	-	340,829
Other accounts payable	861	3,837	-	1,268	-	5,966
Non-current liabilities:						
Loans from banks	-	-	3,016,582	-	-	3,016,582
Provisions for dismantling	-	-	-	-	-	-

and restoration	35,497	-	-	-	-	35,497
Deferred tax liabilities	122,803	-	-	-	-	122,803
Liabilities for employee benefits, net	160	-	-	-	-	160
Total exposure in statement of financial position in respect of financial assets and financial liabilities	3,811,865	408,973	(3,251,641)	91,793	-	1,060,990

(*) Trade receivables includes accrued income from customers in the amount of about NIS 258 million.

Notes to the Financial Statements as at December 31, 2018



Note 15 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(a) The exposure to linkage and foreign currency risk (cont'd)

The Company's exposure to linkage and foreign currency risk is as follows:

	December 31, 2017					Total
	Non-financial	Unlinked	CPI-linked	US Dollar	EURO	
NIS thousand						
Financial assets and financial liabilities:						
Current assets:						
Cash and cash equivalents	-	171,429	-	12,719	34	184,182
Trade receivables (*)		330,396	-	-	-	330,396
Other receivables	83,289	-	-	-	-	83,289
Non-current assets:						
Restricted deposits	-	272,162	-	133,144	-	405,306
Prepaid expenses	43,821	-	-	-	-	43,821
Fixed assets	4,009,008	-	-	-	-	4,009,008
Intangible assets	6,097	-	-	-	-	6,097
Current liabilities:						
Current maturities of loans						
from banks	-	-	203,819	-	-	203,819
Current maturities of loans						
from related parties	-	-	140,464	-	-	140,464
Trade payables	-	350,333	-	65,465	-	415,798
Other accounts payable	3,385	1,049	-	1,215	-	5,649
Financial derivatives	-	-	-	1,191	-	1,191
Non-current liabilities:						
Deferred tax liabilities	89,297	-	-	-	-	89,297
Provisions for dismantling and restoration	36,239	-	-	-	-	36,239
Loans from banks	-	-	3,187,873	-	-	3,187,873
Long-term loans from related						

parties	-	-	54,764	-	-	54,764
Liabilities for employee benefits, net	160	-	-	-	-	160
Total exposure in statement of financial position in respect of financial assets and financial liabilities	<u>4,013,134</u>	<u>422,605</u>	<u>(3,586,920)</u>	<u>77,992</u>	<u>34</u>	<u>926,845</u>

(*) Trade receivables includes accrued income from customers in the amount of about NIS 231 million.

Note 15 - Financial Instruments (cont'd)

E. Market risk (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(a) The exposure to linkage and foreign currency risk (cont'd)

The Company's exposure to foreign currency risk due to derivative financial instruments is as follows:

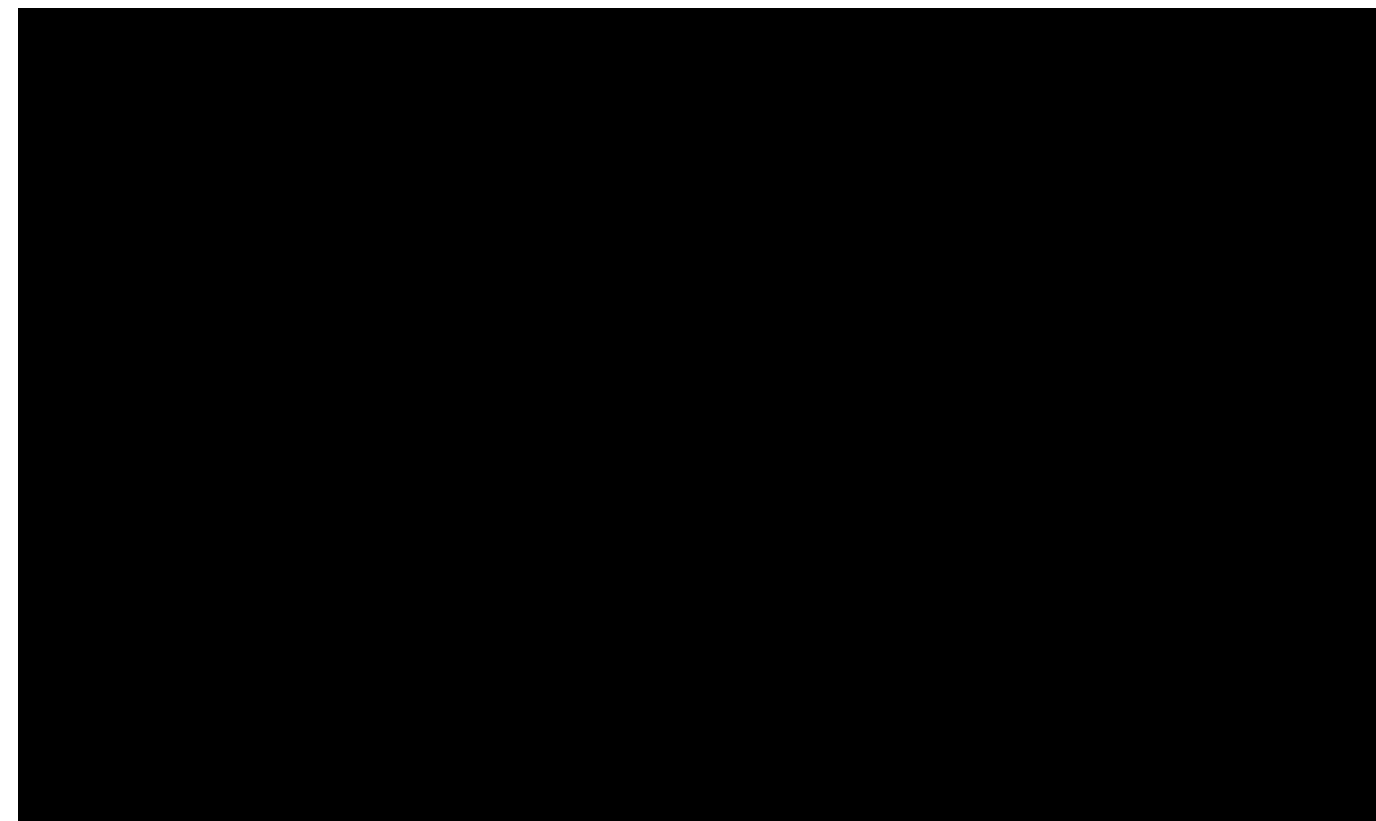
31-Dec-18				
Currency/linkage receivable	Currency/linkage payable	Principal amount in \$ millions	Dates of expiration	Fair value NIS thousands
Instruments used Economic Hedge:				
Forward foreign currency contracts	US dollars	NIS	1	28.1.19
				<u>387</u>

December 31, 2017				
Currency/linkage receivable	Currency/linkage payable	Principal amount in \$ millions	Dates of expiration	Fair value NIS thousands
Instruments used Economic Hedge:				
Forward foreign currency contracts	US dollars	NIS	30	1.28.18
				<u>(1,191)</u>

(b) Sensitivity analysis

A change as at December 31, 2018 in the exchange rates of the following currencies against the NIS, as indicated below, and a change in the CPI would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis is based on foreign currency exchange rate and CPI variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

Notes to the Financial Statements as at December 31, 2018



Note 15 - Financial Instruments (cont'd)

E. Market risk (cont'd)

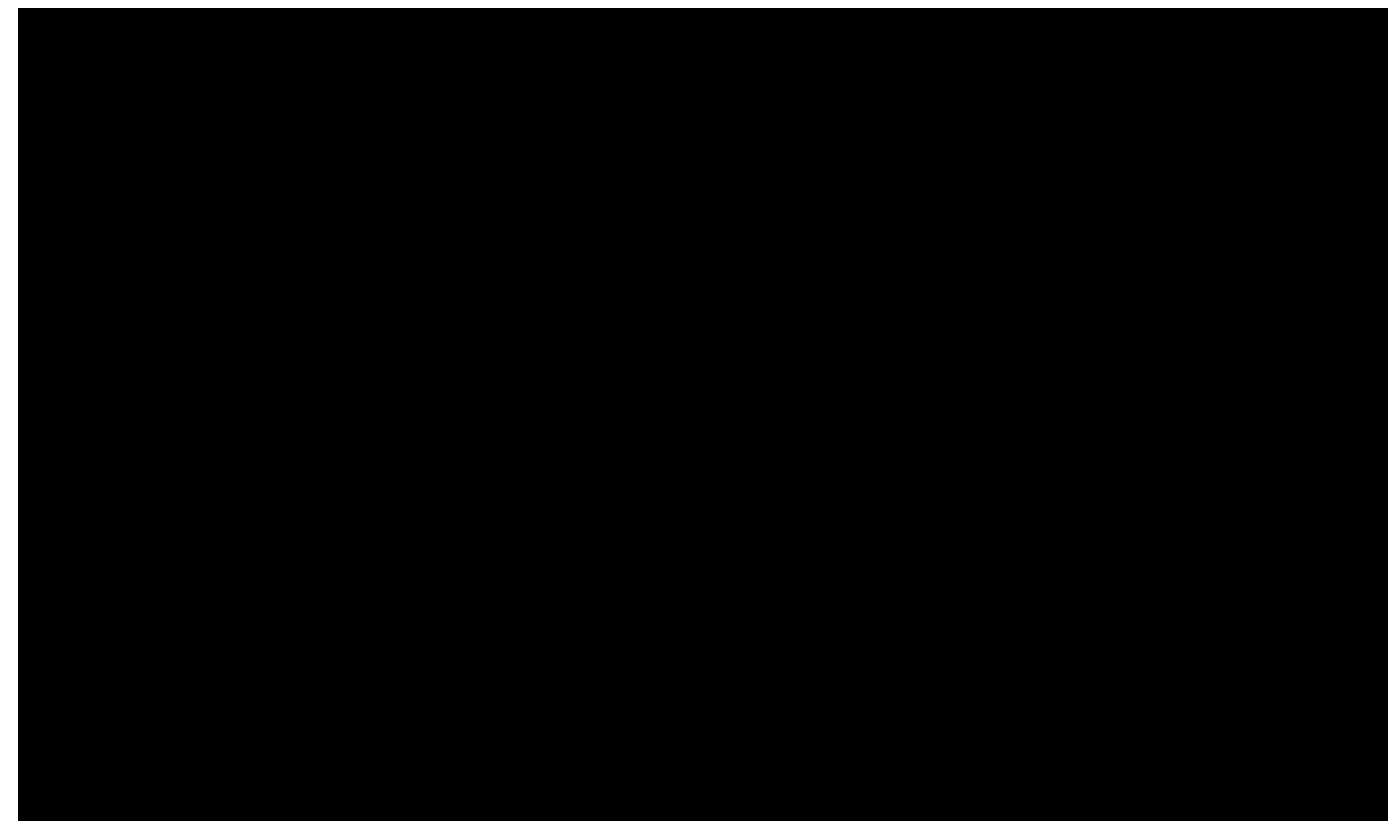
(1) Linkage and foreign currency risks (cont'd)

(b) Sensitivity analysis (cont'd)

	December 31, 2018		December 31, 2017	
	Increase Profit or loss NIS thousands	Decrease Profit or loss NIS thousands	Increase Profit or loss NIS thousands	Decrease Profit or loss NIS thousands
Change in the exchange rate of:				
5% in the US dollar (1)	4,765	(4,750)	9,490	(8,768)
10% in the U.S. dollar (1)	9,523	(9,508)	18,620	(17,897)
1% change in CPI (2)	(32,516)	32,516	(35,870)	35,870
2% change in CPI (2)	(65,033)	65,033	(71,741)	71,741

- (1) The sensitivity derives mainly from balances of cash, restricted deposits, derivatives and balances of trade and other payables in foreign currency.
(2) The effect of the change on equity is the same as in profit or loss.

Notes to the Financial Statements as at December 31, 2017



Note 15 - Financial Instruments (cont'd)

F. Fair value

(1) Fair values versus carrying amounts

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, other accounts receivable, pledged deposits, derivative financial instruments, trade payables, long term loans from related parties and other accounts payable are the same or proximate to their fair value.

The fair values of the financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	December 31			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Long-term loans from banks (*)	3,233,836	3,320,751	3,391,692	3,657,877

(*) Including current maturities.

(2) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date (level 2 on fair value hierarchy) plus an adequate credit spread, and were as follows:

	December 31	
	2018	2017
	%	%
Long-term loans from banks	4.3%	4.6%

(3) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

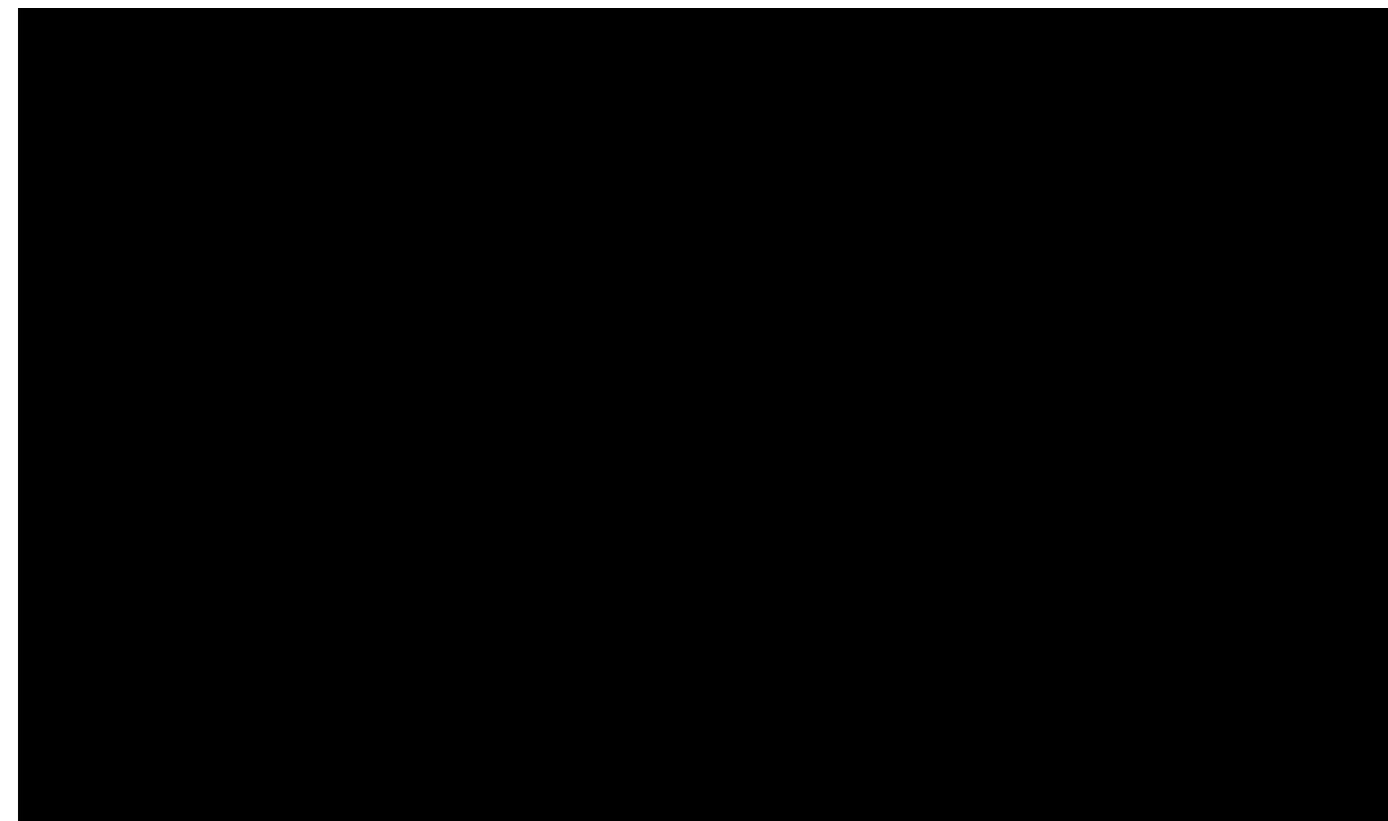
December 31, 2018

	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Derivatives used for hedging:				
Forward foreign currency contracts	-	387	-	387

December 31, 2017

	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Derivatives used for hedging:				
Forward foreign currency contracts	-	(1,191)	-	(1,191)

Notes to the Financial Statements as at December 31, 2018



Note 16 - Related and Interested Parties

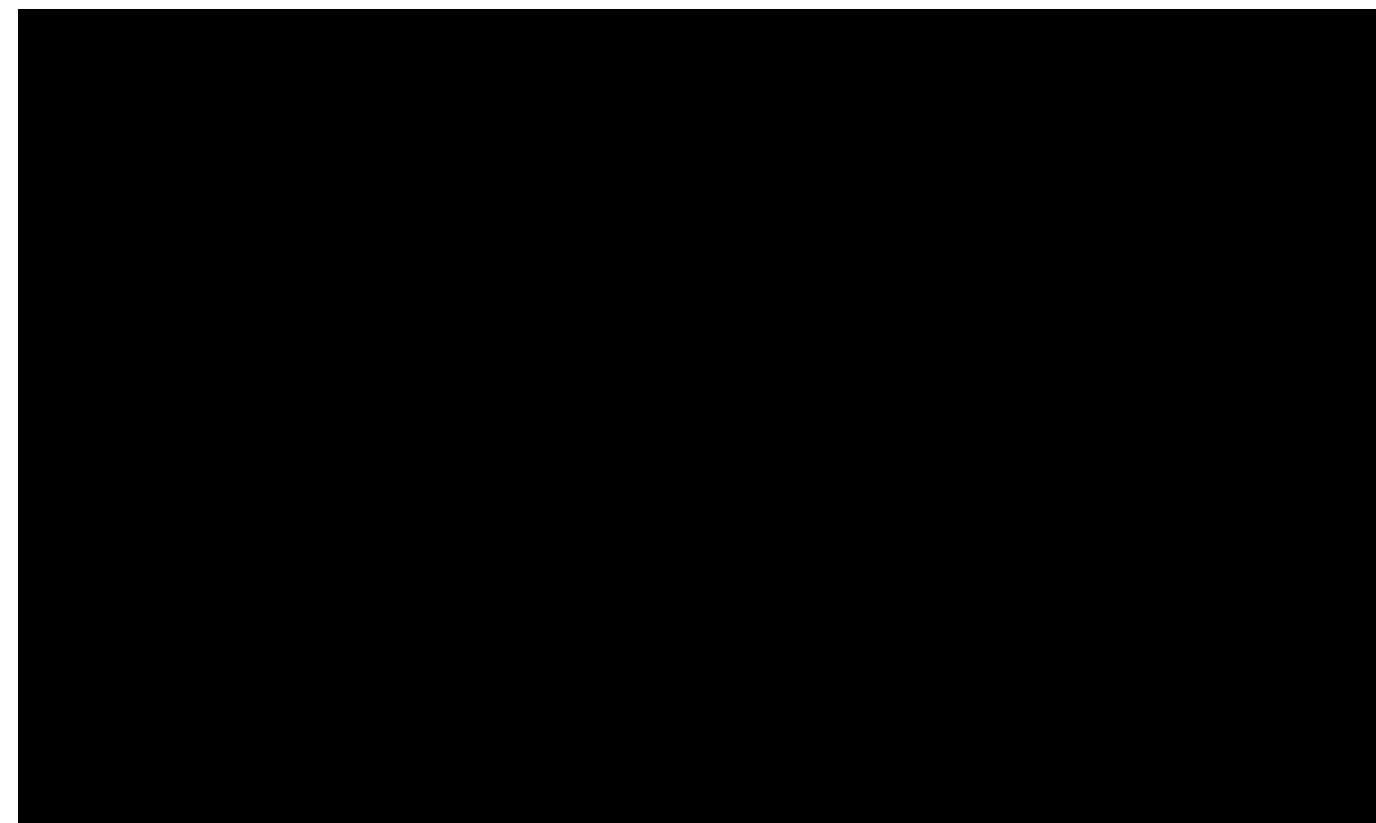
A. Transactions with related and interested parties

Details of transactions with related and interested parties are presented below (all the transactions are at market terms):

Related party/Interested party	Nature of transaction	Year ended December 31			December 31	
		2018	2017	2016	2018	2017
		Transactions amounts			Outstanding balance	
Parties having significant influence	On December 2017 the Company entered into an agreement with EZOM regarding operation and maintenance of the power plant including the purchasing of spare parts	203,050	2,542	-	3,743	6,208
Parties having significant influence	The Company entered into an agreement with EAPSS regarding operation and maintenance of the power plant including the purchasing of spare parts and repairs as from November 2012 see Note 11A(10). The payments will be made on a monthly basis throughout the period of the agreement. See Note 11A(3)) regarding a subcontracting agreement between EAPSS and Ezom Ltd.	3,291	225,325	128,147	-	26,252
Parties having significant influence	The Company entered into an agreement with Eilat Ashkelon Pipelene Company Ltd. (EAPC) regarding petrol storage services as of July 2013. The payments will be paid on a quarterly basis (see Note 11A(5)).	4,312	4,000	3,596	-	1,055

Parties having significant influence	The Company entered into a lease agreement of the land for the power plant (see Note 11A(2)).	<u>3,892</u>	<u>3,881</u>	<u>3,892</u>	<u>-</u>	<u>-</u>
Parties having significant influence	On March 2015, the Company entered into an agreement with EAPC for renting an operational area near to the power station	<u>-</u>	<u>26</u>	<u>151</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements as at December 31, 2018



Note 16 - Related and Interested Parties (cont'd)

A. Transactions with related and interested parties (cont'd)

Details of transactions with related and interested parties are presented below (all the transactions are at market terms): (cont'd)

Related party/Interested party	Nature of transaction	Year ended December 31			31-Dec	
		2018	2017	2016	2018	2017
		Transactions amounts			Outstanding balance	
Parties having significant influence	The Company has several agreements with related companies for the sale of electricity.	16,278	20,270	27,252	-	1,826
Related Party	The Company engage with Ramat Negev Energy for purchase electricity.	127	476	86	-	-
Key management personnel	CEO current benefits	3,256	2,959	2,113	1,061	734

B. The liabilities of the Company to related and interested parties

	The terms of the loan			Balance as at December 31	
	Face value	Term of repayment	Interest rate	Linkage base	
	NIS thousands		%		NIS thousands
Loans from related parties (*)	17,805	(*)	10%	CPI	17,805 195,228

* Financial expenses for loans from related parties until the date of commercial operation incurred in the loan fund. The loans would be returned in accordance with the Financing Agreements, see also Note 9. For further information regarding commitment of the shareholders to provide financing according to their relative share in the Company's shares - see Note 11(A)(1)(a).

[As amended through June 21, 2018]

**THE COMPANIES LAW
A COMPANY LIMITED BY SHARES
SECOND AMENDED AND RESTATED ARTICLES OF
ELLOMAY CAPITAL LTD.**

I PRELIMINARY

1. **Interpretation**

1.1. In these Articles the following terms shall bear the meaning ascribed to them below:

“**Affiliate**” is defined in Article 25.5.1 herein.

“**Alternate Director**” defined in Article 37.1 herein.

The “**Articles**” shall mean the articles of association contained in the Articles, as originally registered and as they may from time to time be amended.

The “**Board**” shall mean the Company’s Board of Directors.

The “**Company**” shall mean the above named company.

“**Control**” is defined in Article 25.5.1 herein.

“**Determining Majority**” as defined in Article 6 herein.

“**External Director**” as defined in the Law.

“**Extraordinary Meetings**” as defined in Article 21.1 herein.

The “**Law**” shall mean the Companies Law, 5759 – 1999, as the same may be amended from time to time, and all the rules and regulations promulgated thereunder.

The “**Memorandum**” shall mean the Memorandum of Association of the Company, as originally registered and as it may from time to time be amended.

“**Obligation**” as defined in Article 13.1 herein.

“**Officer**” is defined in Article 25.5.1 herein.

The “**Ordinance**” shall mean the Companies Ordinance [New Version], 5743-1983, as the same may be amended from time to time.

The “**Register of Members**” shall mean the Company’s Register of Members.

“**Registered Holder**” as defined in Article 10 herein.

“**Securities**” as defined in Article 18 herein.

“**Shareholders Agreement**” shall mean the Shareholders Agreement, dated as of March 24, 2008, between Kanir Joint Investments (2005) Limited Partnership (“**Kanir**”) and S. Nechama Investments (2008) Ltd. (“**Nechama Investments**”), a copy of which is attached hereto as Exhibit A.

Terms and expressions used in the Articles and not defined herein, shall bear the same meaning as in the Law.

1.2. Sections 2, 3, 4, 5, 6, 7, 8 and 10 of the Interpretation Law, 5741-1981, shall apply, mutatis mutandis, to the interpretation of the Articles.

1.3. The captions in the Articles are for convenience only and shall not be deemed a part hereof or affect the interpretation of any provision hereof.

2. **Name**

The Name of the Company shall be Ellomay Capital Ltd., and in Hebrew:

אלומיי קפיטל בע"מ

3. **Purpose and Objective**

3.1. The objective of the Company shall be to undertake any lawful activity, including any objective set forth in the Memorandum (for as long as it is in effect).

3.2. The purpose of the Company is to operate in accordance with commercial considerations with the intention of generating profits. Such considerations may take into account, amongst others, public interest and the interests of the Company's creditors and employees. In addition, the Company may contribute reasonable amounts for any suitable purpose even if such contributions do not fall within the business considerations of the Company. The Board may determine the amounts of the contributions, the purpose for which the contribution is to be made, and the recipients of any such contribution.

II SHARE CAPITAL

4. **Share Capital**

The Company's authorized share capital will be NIS 170,000,000 divided into 17,000,000 ordinary shares of the Company, nominal value NIS 10.00 each.

5. **Limited Liability**

The liability of the shareholders of the Company for the indebtedness of the Company shall be limited to payment of the nominal value of such shares.

6. **Alteration of Share Capital**

The Company may, from time to time, by a resolution approved at a General Meeting by such majority as is required to amend these Articles (as set forth in Article 25 below), or, if higher, such majority as shall be required to amend the Memorandum (for as long as it is still in force) (collectively, a "**Determining Majority**"):

6.1. Increase its share capital in an amount it considers expedient by the creation of new shares. The power to increase the share capital may be exercised by the Company whether or not all of the shares then authorized have been issued and whether or not all of the shares theretofore issued have been called up for payment. Such resolution shall set forth the amount of the increase, the number of the new shares created thereby, their nominal value and class, and may also provide for the rights, preferences of deferred rights that shall be attached to the newly created shares and the restrictions to which such shares shall be subject;

6.2. Consolidate all or any of its issued or unissued share capital and divide same into shares of nominal value larger than the one of its existing shares;

- 6.3. Subdivide all or any of its issued or unissued share capital, into shares of nominal value smaller than the one of its existing shares; provided, however, that the proportion between the amount paid and the amount unpaid on each share which is not fully paid-up shall be retained in the subdivision;
- 6.4. Cancel any shares which, as at the date of the adoption of the resolution, have not been issued or agreed to be issued, and thereby reduce the amount of its share capital by the aggregate nominal value of the shares so canceled;

III SHARES

7. **Rights Attached to Shares**

- 7.1. Subject to any contrary provisions of the Memorandum (for as long as it is in effect) or the Articles, same rights, obligations and restrictions shall be attached to all the shares of the Company regardless of their denomination or class.
- 7.2. If at any time the share capital is divided into different classes of shares, the rights attached to any class may be modified or abrogated by a resolution adopted by a Determining Majority at a General Meeting and by the adoption of a resolution, supported by a Determining Majority, approving same modification or abrogation at a General Meeting of the holders of the shares of such class.

The provisions of the Articles relating to General Meeting of the Company shall apply, mutatis mutandis, to any separate General Meeting of the holders of the shares of a specific class, provided, however, that the requisite quorum at any such separate General Meeting shall be one or more members present in person or by proxy and holding not less than thirty three and one third percent (33 $\frac{1}{3}$ %) of the issued shares of such class.

- 7.3. The creation of additional shares of a specific class, or the issuance of additional shares of a specific class, shall not be deemed, for purposes of article 7.2, a modification or abrogation of rights attached to shares of such class or of any other class.

8. **Issuance of Shares**

Issuance of shares of the Company shall be under the control of the Board, who shall have the authority to issue the Company's shares or grant options to acquire shares, to such persons and on such terms and conditions as the Board may think fit, or to delegate such authority in accordance with the Law.

9. **Share Certificates**

- 9.1. Each member shall be entitled, not later than 60 days from the date of issuance or the date of transfer, to receive from the Company one share certificate in respect of all the shares of any class registered in his name on the Register of Members or, if approved by the Company, several share certificates, each for one or more of such shares.
 - 9.2. Each share certificate issued by the Company shall be numerated, denote the class of the shares represented thereby and the name of the owner, thereof as registered on the Register of Members, and may also specify the amount paid-up thereon. A share certificate shall be signed on behalf the Company by the person or persons authorized by the Board.
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- 9.3. A share certificate denoting two or more persons as joint owners of the shares represented thereby shall be delivered to any one of the persons named on the Register of Members in respect of such joint ownership.
- 9.4. A share certificate defaced or defective, may be replaced upon being delivered to the Company and being canceled. A share certificate lost or destroyed may be replaced upon furnishing of evidence to the satisfaction of the Board proving such loss or destruction and subject to the submission to the Company of an indemnity letter and/or securities as the Board may think fit.

A member requesting the replacement of a share certificate shall bear all expenses incurred by the Company in connection with the provisions of this Article.

10. Owners of Shares

The Company shall be entitled to treat the person registered in the Register of Members as the holder of any share, as the absolute owner thereof (a **Registered Holder**) and shall also treat any other person deemed as a holder of shares pursuant to the Law, as an owner of shares.

11. Calls on Shares

- 11.1. The Board may, from time to time, make calls upon members to perform payment of any amount of the consideration of their shares not yet paid, provided same amount is not, by the terms of issuance of same shares, payable at a definite date. Each member shall pay to the Company the amount of every call so made upon him at the time(s) and place(s) designated in such call. Unless otherwise stipulated in the resolution of the Board, each payment with respect to a call shall be deemed to constitute a pro-rata payment on account of all of the shares in respect of which such call was made.
- 11.2. A call may contain a demand for payment in installments.
- 11.3. A call shall be made in writing and shall be delivered to the member(s) in question not less than fourteen (14) days prior to the date of payment stipulated therein. Prior to the due date stipulated in the call the Board may, by delivering a written notice to the member(s), revoke such call, in whole or in part, postpone the designated date(s) of payment or change the designated place of payment.
- 11.4. If, according to the terms of issuance of any share, any amount is due at a definite date, such amount shall be paid on same date, and the holder of the same share shall be deemed, for all intents and purposes, to have duly received a call in respect of such amount.
- 11.5. The joint holders of a share shall be bound jointly and severally to pay all calls in respect thereof. A call duly made upon one of the joint holders shall be deemed to have been duly made upon all of the joint holders.
- 11.6. Any amount not paid when due shall bear an interest from its due date until its actual payment at a rate equal to the then prevailing rate of interest for unauthorized overdrafts as charged by Bank Hapoalim Ltd, unless otherwise prescribed by the Board.

The provisions of this Article 11.6 shall in no way deprive the Company of, or derogate from any other rights and remedies the Company may have against such member pursuant to the Articles or any pertinent law.

- 11.7. The Board may agree to accept prepayment by any member of any amount due with respect to his shares, and may direct the payment of interest for such prepayment at a rate as may be agreed upon between the Board and the member so prepaying.
- 11.8. Upon the issuance of shares of the Company, the Board may stipulate similar or different terms with respect to the payment of the consideration thereof by their respective holders.

12. **Forfeiture and Surrender**

- 12.1. If any member fails to pay when due any amount payable pursuant to a call, or interest thereon as provided for herein, the Company may, by a resolution of the Board, at any time thereafter, so long as said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. All expenses incurred by the Company with respect to the collection of any such amount of interest, including, inter-alia, attorney's fees and costs of legal proceedings, shall be added to, and shall constitute a part of the amount payable to the Company in respect of such call for all purposes (including the accrual of interest thereon).
- 12.2. Upon the adoption of a resolution of forfeiture, the Board shall cause the delivery of a notice thereof to the member in question. Same notice shall specify that, in the event of failure to pay the entire amount due within the period stipulated in the notice (which period shall be not less than thirty (30) days), same failure shall cause, ipso facto, the forfeiture of the shares. Prior to the expiration of such period, the Board may extend the period specified in the notice of forfeiture or nullify the resolution of forfeiture, but such nullification shall not estop nor derogate from the power of the Board to adopt a further resolution of forfeiture in respect of the non-payment of said amount.
- 12.3. Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited together with the shares.
- 12.4. The Company, by a resolution of the Board, may accept the voluntary surrender by any member of all or any part of his shares.
- 12.5. Any share forfeited or surrendered as provided herein shall thereupon constitute the property of the Company, and may be resold. Such shares that have not yet been resold shall be considered dormant shares.
- 12.6. Any member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares, but shall, notwithstanding, be obligated to pay to the Company all amounts at the time of forfeiture or surrender due to the Company with respect thereof, including interest and expenses as aforesaid until actual repayment, whether the maturity date of same amounts is on or prior to the date of forfeiture or surrender or at any time thereafter, and the Board, in its discretion, may enforce payment of such amounts or any part thereof, unless such shares have been resold in which event the provisions of the Law shall apply. In the event of such forfeiture or surrender, the Company, by a resolution of the Board, may accelerate the maturity date(s) of any or all amounts then owed to the Company by same member and not yet due, however, arising whereupon all of such amounts shall forthwith become due and payable.

The Board may, at any time before any share so forfeited or surrendered shall have been reissued or otherwise disposed of to a third party, nullify the forfeiture or the acceptance of the surrender on such conditions as it thinks fit, but such nullification shall not estop nor derogate from the power of the Board to re-exercise its powers of forfeiture pursuant to this Article 12.

13. **Lien**

- 13.1. The Company shall have, at all times, a first and paramount lien upon all the shares registered in the name of each member on the Register of Members, upon all the dividends declared in respect of such shares and upon the proceeds of the sale thereof, as security for his obligations. For the purposes of this Article 13 and of Article 14, the term "Obligation" shall mean any and all present and future indebtedness owed to the Company by a member with respect to his shares, however arising, whether such indebtedness is absolute or contingent, joint or several, matured or unmatured, liquidated or non-liquidated.
- 13.2. Shall a member fail to fulfill any or all of his Obligations, the Company may enforce the lien, after same member was provided with a period of fourteen (14) days to fulfill the Obligations so breached.
- 13.3. A member shall be obliged to reimburse the Company for all expenses thereby incurred with respect to the enforcement of a lien upon same member's shares, and such obligation shall be secured by the shares which are subject to same lien.

14. **Sale of Shares after Forfeiture or Surrender or in Enforcement of Lien**

- 14.1. Upon any sale of shares after forfeiture or surrender or in the course of enforcement of a lien, the Company may appoint any person to execute an adequate instrument of transfer or any other instrument required to effect the sale, and shall be entitled to register the purchaser on the Register of Members as the holder of the shares so purchased. The purchaser shall not be obliged to check the regularity of the proceedings of forfeiture, surrender or enforcement of a lien or the use that was made consideration thereby paid with respect to the shares.

As of the entry of the purchaser's name in the Register of Members in respect of such shares, the validity of the sale shall not be rebutted, and the sole remedy of any person aggrieved by the sale shall be in damages, and against the Company solely.

- 14.2. The net proceeds of any such sale, after payment of the selling expenses, shall serve for repayment of the Obligations of the respective member, and the balance if any shall be paid to the member, his inheritors, the executors of his will, the administrators of his estate, and to persons on his behalf.

15. **Redeemable Securities**

Subject to the Law, the Company may issue redeemable securities and redeem the same.

16. **Effectiveness of Transfer of Shares**

A transfer of title to shares of the Company, whether voluntarily or by operation of law, shall not confer upon the transferee any rights towards the Company as a Registered Holder unless and until such time as the transfer has been registered in the Register of Members.

17. **Procedure on Voluntary Transfer of Shares**

A person desiring to be registered as a Registered Holder, shall deliver to the Company an instrument of transfer of shares according to which he is the transferee accompanied by a notice to the effect, in a form to be prescribed by the Board, duly executed by such person and the transferor, and subject to the prior fulfillment of the provisions of Article 18 below, the Board shall instruct the registration of same in the Register of Members.

18. **Transfer of Shares**

- 18.1. The transfer of shares of the Company and any other securities issued by the Company and owned by a Registered Holder (in this Article 18, hereinafter, "**Securities**") shall be made in writing in a conventional manner or as established by the Board; it may be effected by the signature of the transferor only, on the condition that an appropriate share transfer deed shall be submitted to the Company.
 - 18.2. Securities that are not paid up in full or are subject to any lien or pledge may not be transferred unless the transfer is approved by the Board, which may at its sole discretion withhold its approval without having to show grounds.
 - 18.3. Any transfer of Securities that are not paid up in full shall be subject to the signature of the transferee and the signature of a witness in verification of the authenticity of the signatures on the share transfer deed.
 - 18.4. The transferor shall be deemed to be the Registered Holder of the transferred Securities until the name of the transferee is entered in the Register of Members.
 - 18.5. The share transfer deed shall be submitted to the office for registration together with the certificates to be transferred and such other evidence as the Company may require with regard to the transferor's title or right to transfer the Securities. The share transfer deed shall remain with the Company after its registration.
 - 18.6. The Company may demand payment of a transfer registration fee at a rate to be determined by the Board from time to time.
 - 18.7. The Board may close the Register of Members for a period no longer than 30 days every year.
 - 18.8. Upon the death of a Registered Holder of Securities of the Company, the Company shall recognize the guardians, administrators of the estate, executors of the will, and in the absence of such persons, the inheritors of the deceased person as the only ones entitled to be registered as the Registered Holders of Securities of the Company, subject to proof of their rights in a manner established by the Board.
 - 18.9. In the event of the deceased member being a Registered Holder of a Security jointly with other persons, the surviving member shall be considered the sole Registered Holder of said Securities, upon the approval of the Company, without exempting the estate of the deceased joint holder from any of the obligations relating to the jointly held Securities.
 - 18.10. A person acquiring a right to a Security by virtue of his being a guardian or administrator of the estate or inheritor of the deceased member, or receiver, liquidator or trustee in liquidation proceedings regarding a corporate member, or by any operation of law, may be subject to submission of such proof of entitlement as the Board may establish be entered as the Registered Holder of the respective Security or transfer the Security subject to the provisions of the Articles with regard to such transfer.
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18.11. A person acquiring a Security as a result of a transfer by operation of law shall be entitled to dividends and other rights in respect of the Security and also to receive and certify the receipt of dividends and other sums of money in connection with the said Security; however, such person shall not be entitled to receive notices of the convening of General Meetings of the Company or to participate or vote therein or to exercise any right conferred by the Security with the exception of the aforementioned rights, pending the registration of such person in the Register of Members.

19. **Issuance of Shares**

The number of shares, and other securities convertible or exercisable into shares, issued by the Company shall not exceed a maximum amount equal to the registered share capital of the Company; for this purpose, securities convertible or exercisable into shares, shall be considered as having been converted or exercised on the date of issuance.

IV GENERAL MEETINGS

20. **Annual Meeting**

20.1. An Annual Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual Meeting) and at such place as may be determined by the Board.

20.2. The Annual Meeting shall:

20.2.1. Discuss the audited financial statements of the Company for the last fiscal year;

20.2.2. Appoint auditors and establish their remuneration, or empower the Board to establish their remuneration;

20.2.3. Appoint the directors as stipulated in Article 32 below, and establish their remuneration;

20.2.4. Discuss any other business to be transacted at a General Meeting according to the Articles or by operation of law.

21. **Extraordinary Meeting**

21.1. All General Meetings other than Annual Meetings shall be called "Extraordinary Meetings".

21.2. The Board may, whenever it thinks fit, convene an Extraordinary Meeting, and shall be obligated to do so upon receipt of a requisition in writing in accordance with Section 63 of the Law.

21.3. Members of the Company shall not be authorized to convene an Extraordinary Meeting except as provided in Section 64 of the Law.

22. **Notice of General Meetings**

- 22.1. Prior to any General Meeting, a written notice thereof shall be made public as required by Law. Such notice shall specify the place, the day and the hour of the General Meeting, the agenda of the meeting and such other information required under law. The notice will be published not less than fourteen (14) days prior to any General Meeting. The Company shall not be required to deliver notice to each shareholder, except as may be specifically required by Law.
- 22.2. Any written notice or other document may be served by the Company upon any member either personally or by sending it by prepaid mail addressed to such member at his address as described in the Register of Members or such other address as he may have designated in writing for the receipt of notices and other documents.
- 22.3. Notwithstanding anything to the contrary herein, notice by the Company of a General Meeting which is published in one international wire service shall be deemed to have been duly given on the date of such publication.

23. **Quorum**

- 23.1. Two or more members present in person or by proxy and holding shares conferring in the aggregate more than twenty-five percent (25%) of the total voting power attached to the shares of the Company, shall constitute a quorum at General Meetings. No business shall be considered or determined at a General Meeting, unless the requisite quorum is present when the General Meeting proceeds to consider and/or determine same business.
- 23.2. If within half an hour from the time appointed for the General Meeting a quorum is not present, the General Meeting shall, if convened upon requisition under Section 64 of the Law, be dissolved, but in any other case it shall stand adjourned on the same day, in the next week, at the same time and place. The requisite quorum at an adjourned General Meeting shall be any two or more members, present in person or by proxy. At an adjourned General Meeting the only businesses to be considered shall be those matters which might have been lawfully considered at the General Meeting originally called if a requisite quorum had been present, and the only resolutions to be adopted are such types of resolutions which could have been adopted at the General Meeting originally called.

24. **Chairman**

The Chairman, of the Board, or if there is no such chairman, or if he is not present, any other person appointed by the members present, shall preside as Chairman at a General Meeting of the Company. The Chairman of any General Meeting shall have no additional or casting vote.

25. **Adoption of Resolution at General Meetings**

- 25.1. A resolution, including, but not limited to, a resolution to amend these Articles and to approve a merger of the Company, shall be deemed adopted at a General Meeting if the requisite quorum is present and the resolution is supported by members present, in person or by proxy, vested with more than fifty percent (50%) of the total voting power attached to the shares whose holders were present, in person or by proxy, at such General Meeting and voted thereon, or such other percentage as is required by these Articles or by the Law.
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- 25.2. Any proposed resolution put to vote at a General Meeting shall be decided by a poll.
- 25.3. Subject to approval by a General Meeting at which the requisite quorum is present, the chairman is obligated at the request of the General Meeting, to adjourn the General Meeting, and the adjourned meeting shall convene at such date and place as is decided by the General Meeting. If the General Meeting is adjourned by more than twenty-one (21) days, a notice of the adjourned meeting shall be given in the manner set forth in Sections 67 through 69 of the Law. An adjourned meeting may only transact such business as left unfinished at the original meeting.
- 25.4. A declaration by the Chairman of the General Meeting that a proposed resolution has been adopted or rejected, shall constitute conclusive evidence of the adoption or rejection, respectively, of same resolution, and no further proof verifying the contents of such declaration or the number or proportion of the votes recorded in favor of or against such resolution shall be required.
- 25.5. Notwithstanding anything to the contrary herein, for so long as the Shareholders Agreement is in effect, at the written request of any two directors with respect to any proposed action or transaction described below, such action or transaction shall require the approval of the General Meeting by a resolution supported by members present, in person or by proxy, vested with at least 50.1% of the outstanding shares of the Company, or by such higher approval threshold as may be required by Law:
- 25.5.1. any transaction of the Company or of a subsidiary of the Company with (i) an Officer of the Company or a nominee to become a director of the Company, (ii) a shareholder of the Company which owns 5% or more of its outstanding share capital, (iii) a family member of the first degree of any of the foregoing persons or (iv) an Affiliate of any of the foregoing. “**Officer**” shall have the meaning of “office holder” under the Law. “**Affiliate**” shall mean, with respect to any party, any person (a) in which such party, directly or indirectly, owns at least majority interest (both economic and voting), (b) which directly or indirectly owns a majority interest (both economic and voting) in such party, or (c) which, directly or indirectly, is in Control of or is Controlled by such party. “**Control**” shall mean, with respect to a person that is a corporation, the ownership, directly or indirectly, of voting securities of such person carrying more than 50% of the voting rights attaching to all voting securities of such person which are sufficient, if exercised, to elect a majority of its board of directors, and in relation to a person that is a partnership, limited partnership, business trust or other similar entity, the ownership, directly or indirectly, of voting securities of such person carrying more than 50% of the voting rights attaching to all voting securities of the person or the ownership of other interests entitling the holder to exercise control and direction over the activities of such person;
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- 25.5.2. any amendment to the Memorandum or these Articles;
- 25.5.3. any merger or consolidation of the Company;
- 25.5.4. any material change in the Company's scope of business;
- 25.5.5. the voluntary liquidation or dissolution of the Company;
- 25.5.6. approval of the Company's annual budget and business plan, and any material deviation therefrom; and
- 25.5.7. any change of the signatory rights on behalf of the Company.

26. Voting Power

- 26.1. Subject to the provisions of Article 27.1 below and subject to any other provision hereof pertaining to voting rights attached or not-attached to shares of the Company, whether in general or in respect of a specific matter or matters, every member shall have one vote for each share registered in his name on the Register of Members, regardless of its denomination or class.
- 26.2. In case of equality of votes, the resolution shall be deemed to have been rejected.

27. Attendance and Voting Rights at General Meeting

- 27.1. Unless provided otherwise by the terms of issue of the shares, no member shall be entitled to be present or vote at a General Meeting (or be counted as part of the quorum thereat) unless all amounts due as at the date designated for same General Meeting with respect to his shares were paid.
 - 27.2. A corporate body being a member of the Company and entitled to vote and/or attend at a General Meeting may exercise such rights by authorizing any person, whether in general or for a specific General Meeting, to be present and/or vote on its behalf. Upon the request of the Chairman of the General Meeting, a writing evidence of such authorization and its validity (in a form acceptable to the Chairman) shall be furnished thereto.
 - 27.3. A member entitled to vote and/or attend at a General Meeting may appoint a proxy, whether is general or for a specific General Meeting, to exercise such rights, in a form approved by the Board.
 - 27.4. The instrument appointing a proxy shall be delivered to the Company not later than forty-eight (48) hours before the time designated for the General Meeting at which the person named in the instrument proposes to vote and/or attend.
 - 27.5. A member entitled to vote and/or attend at a General Meeting and is legally incapacitated, may exercise such rights by his custodian.
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27.6. If two or more persons are registered as joint owners of any share, the right to attend at a General Meeting, if attached to such share, shall be conferred upon all of the joint owners, but the right to vote at a General Meeting and/or the right to be counted as part of the quorum thereat, if attached to such share, shall be conferred exclusively upon the senior amongst the joint owners attending the General Meeting, in person or by proxy; and for this purpose seniority shall be determined by the order in which the names appear on the Register of Members.

27.7. The voting on the terms of the instrument of proxy shall be legal even in case of prior death or incapacity or bankruptcy of the principal, and in respect of a corporate principal, in case of its winding up or revocation of the instrument of proxy or transfer of the respective share, unless a notice in writing of such death or incapacity or bankruptcy or winding up or revocation of share transfer shall have been received by the Register of Members.

The written notice of revocation of the proxy shall be valid if signed by the principal and received by the Register of Members not later than one hour before the start of voting.

27.8. No proxy shall be valid after the expiry of 12 months from the date of its issue.

V BOARD OF DIRECTORS

28. **Powers of the Board**

28.1. The Board shall be vested with the exclusive authority to exercise all of the Company's powers which are not, by Law, the Memorandum (for as long as it is in effect), the Articles or any applicable law, required to be exercised by the General Meeting, the General Manager, or any other organ of the Company as such term is defined in the Law.

28.2. The Board shall set the policy guidelines for the Company and shall supervise the performance and activities of the General Manager.

29. **Exercise of Powers of the Board**

29.1. The powers conferred upon the Board shall be vested in the Board as a collective body, and not in each one or more of the directors individually, and all such powers may be exercised by the Board by adopting resolutions in accordance with the provisions of the Articles.

29.2. Except as otherwise required by these Articles, a resolution shall be deemed adopted at a meeting of the Board if supported by a majority of the directors attending such meeting and entitled to vote thereon. The Chairman of the Board shall have no casting vote, except as set forth in Article 41.2.

29.3. The Board may hold meetings using any means of communication, provided that all of the directors participating can simultaneously hear one another.

29.4. The Board may adopt resolutions without convening a meeting, as provided in the Law.

30. **Committees of Directors**

30.1. The Board may, subject to Section 112 of the Law, delegate any or all of its powers to committees, each consisting of two or more directors, one of which shall be an External Director, and it may, from time to time, revoke or alter the powers so delegated. Without derogating from the generality of the foregoing, subject to the Law, the Board may delegate to a committee its power to approve the terms of compensation of officers. Each committee shall, in the exercise of the powers so delegated, conform to any regulations and conditions prescribed by the Board upon the delegation or at any other time. Each resolution adopted by a committee within the powers delegated to it by the Board shall be deemed to have been held by the Board.

- 30.2. The Board will appoint from among its members an audit committee. All External Directors shall be members of the audit committee.
- 30.3. The provision of the Articles with respect to the meetings of the Board, their convening and adoption of resolutions thereat shall apply, mutatis mutandis, to the meetings of any such committee, unless otherwise prescribed by the Board.

31. **Number of Directors**

Unless otherwise prescribed by a resolution adopted at a General Meeting, the Board shall consist of not less than four (4) nor more than eight (8) directors (including the External Directors appointed as required under the Law).

32. **Appointment and Removal of Directors**

- 32.1. The directors shall be elected annually at a General Meeting as aforesaid and shall remain in office until the next Annual Meeting at which time they shall retire, unless their office is vacated previously as stipulated in the Articles, provided however that the External Directors shall be appointed, and shall remain in office, as prescribed in the Law.
 - 32.2. The elected directors shall assume office on the day of their election.
 - 32.3. A retiring director may be reelected. Pending the convening of an Annual Meeting at which the directors are to retire from office, all directors shall remain in office until the convening of the Annual Meeting of the Company except in case of prior vacation of a director's office according to the Articles.
 - 32.4. If no directors are elected at the Annual Meeting, all the retiring directors shall remain in office pending their replacement by a General Meeting of the Company.
 - 32.5. Except with regard to a director whose tenure of office expires upon the convening of a General Meeting or a person recommended by the Board to serve as director, no motions for appointment of a candidate as a director shall be made unless a notice in writing signed by a member of the Company (other than the candidate himself) who is entitled to participate in and vote at the meeting, stating the intent of the said member to propose a candidate for election to the office of director, together with a document in writing by the candidate expressing his consent to be so elected, shall have been received at the office of the Company within a period of not less than forty-eight (48) hours and not more than forty-two (42) days before the appointed date of the General Meeting.
 - 32.6. The General Meeting may, by way of a resolution, remove a director from office before the expiry of his tenure, and appoint another person to serve as director of the Company in his place, and also appoint a number of directors in the event of the number of directors having decreased below the minimum established by the General Meeting.
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32.7. The provisions of this Article 32 shall not apply to External Directors, whose appointment and removal shall be pursuant to the relevant provisions of the Law.

33. **Qualification of Directors**

No person shall be disqualified to serve as a director by reason of his not holding shares in the Company or by reason of his having served as director in the past.

The provisions of this Article 33 shall not apply to External Directors, whose qualifications are as set forth in the relevant provisions of the Law.

34. **Vacation of Director's Office**

The office of a director shall be vacated:

- 34.1. Upon his death;
- 34.2. On the date at which he is declared a bankrupt;
- 34.3. On the date he is declared legally incapacitated;
- 34.4. On the date stipulated therefor in the resolution of his election or the notice of his appointment, as the case may be;
- 34.5. On the date stipulated therefor in the resolution or notice of his removal or on the date of the delivery of such notice to the Company, whichever is later;
- 34.6. On the date stipulated therefor in a written notice of resignation thereby delivered to the Company or upon its delivery to the Company, whichever is later.
- 34.7. If he is convicted in a final judgment of an offence of a nature which disqualifies a person from serving as a director, as set forth in the Law.
- 34.8. If a court of competent jurisdiction decides to terminate his office, in accordance with the provisions of the Law, in a decision or judgment for which no stay of enforcement is granted.

35. **Remuneration of Directors**

The directors shall be entitled to remuneration by the Company for their services as directors. The remuneration may be established as a global sum or as a fee for participation in meetings. In addition to such remuneration, every director shall be entitled to a refund of reasonable expenses for travel, per diem money, and other expenses related to the discharge of his duties as a director.

The provisions of this Article 35 shall not apply to External Directors, whose remuneration shall be in accordance with the relevant provisions of the Law.

36. **Conflict of Interests**

The approval of any transaction that involves a conflict of interest with an Officer shall be approved in accordance with the Law and these Articles.

37. **Alternate Director**

- 37.1. Subject to the approval of the Board, a director may, by delivering a written notice to the Company, appoint an alternate for himself (hereinafter referred to as “**Alternate Director**”), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. The appointment of the Alternate Director shall be for an indefinite period and for all purposes, unless restricted to a specific period, to a specific meeting or act of the Board, to a specific matter or in any other manner, and same restriction was specified in the appointment instrument or in a written note delivered to the Company.
- 37.2. Any notice delivered to the Company pursuant to Article 37.1 shall become effective on the date specified therefor therein or upon delivery thereof to the Company or upon approval of the Board, whichever is later.
- 37.3. An Alternate Director shall be vested with all rights and shall bear all obligations of the director who appointed him, provided, however, that he shall not be entitled to appoint an alternate for himself (unless the instrument appointed him expressly provides otherwise), and provided further that the Alternate Director shall have no standing at any meeting of the Board or any committee thereof whereat the director who appointed him is present.
- 37.4. The following may not be appointed nor serve as an Alternate Director: (i) a person not qualified to be appointed as a director, (ii) an actual director, or (iii) another Alternate Director.
- 37.5. The office of an Alternate Director shall be vacated under the circumstances, mutatis mutandis, set forth in Article 34, and such office shall further be ipso facto vacated if the director who appointed such Alternate Director ceases to be a director.

38. **Meeting of the Board**

- 38.1. Subject to Articles 40 and 41 below, the Board may meet, adjourn its meeting and otherwise determine and regulate such meetings and their proceedings as it deems fit.
- 38.2. Upon the vacation of the office of a director, the remaining directors may continue to discharge their functions until the number of remaining directors decreases below the minimum established in the Articles. In the latter case the remaining directors may only act to convene a General Meeting of the Company.
- 38.3. The Board, by unanimous approval of all directors then in office, may at any time appoint any person to serve as director as replacement for a vacated office or in order to increase the number of directors, subject to the condition that the number of directors shall not exceed the maximum established in these Articles. Any so appointed director shall remain in office until the next Annual Meeting, at which he may be reelected.

39. **Convening Meetings of the Board**

- 39.1. The Chairman of the Board may, at any time, convene a meeting of the Board, and shall be obliged to do so (i) at least once every three months, (ii) upon receipt of a written demand from any one director, or (iii) in accordance with Section 122(4) or 169 of the Law. In the event there is no such Chairman or a meeting of the Board was not convened to a date which is no later than ten (10) days following delivery of such written demand or receipt of the relevant notice or report, any of the abovementioned directors may convene a meeting of the Board.
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Convening a meeting of the Board shall be made by delivering a notice thereof to all of the directors within a reasonable length of time prior to the date thereof. Such notice shall specify the exact time and place of the meeting so called and a reasonably detailed description of the all of the issues on the agenda for such meeting. In urgent situations, a meeting of the Board can be convened without any prior notice with the consent of a majority of the directors.

- 39.2. A resolution adopted at a meeting of the Board, which had not convened in accordance with the necessary requirements set forth in the Law or these Articles may be invalidated in accordance with the applicable provisions of the Law.
- 39.3. A director may waive his right to receive prior notice of any meeting, in general or in respect of a specific meeting, and shall be deemed to have waived such right with respect to any meeting at which he was present.

40. **Quorum**

A majority of the number of directors then in office and entitled to participate in the discussion shall constitute a quorum at meetings of the Board, except if and as otherwise required in accordance with the Law. No business shall be considered or determined at any meeting of the Board unless the requisite quorum is present when the meeting proceeds to consider or determine same business.

41. **Chairman of the Board**

- 41.1. The Board may from time to time elect one of its members to be the Chairman of the Board, remove such Chairman from office and appoint another in his place. However, the General Manager shall not serve as the Chairman of the Board, nor shall the Chairman of the Board be vested with the powers designated to the General Manager, except in accordance with Section 121(3) of the Law. The Chairman of the Board shall preside at every meeting of the Board, but if there is no such Chairman, or if he is not present or he is unwilling to take the chair at any meeting, the directors present shall elect one of their members to be chairman of such meeting.
 - 41.2. The Chairman of the Board shall have no casting vote, unless (i) the Chairman of the Board is then Mr. Shlomo Nehama and (ii) Nechama Investments, together with any Affiliates thereof, then holds at least 25.05% of the outstanding shares of the Company. Notwithstanding the foregoing, in case Mr. Shlomo Nehama elects to exercise his casting vote in respect of a specific resolution brought before the Board (the "**Triggering Resolution**"), then (a) prior to such exercise, Nechama Investments shall be required to trigger the "Buy Me Buy You" mechanism set forth in Section 6 of the Shareholders Agreement as an Offering Party (as defined in the Shareholders Agreement), whereby the Triggering Resolution will be pending until the consummation of the sale of the Restricted Shares (as defined in the Shareholders Agreement) of one party to the Shareholders Agreement to the other party of the Shareholders Agreement in accordance with such "Buy Me Buy You" mechanism; and (b) in the event that three (3) directors of the Company so require, the Triggering Resolution shall be conditioned upon the approval of the General Meeting pursuant to Article 25.1. Upon a transfer of the Restricted Shares by Kanir to third party in accordance with the terms of the Shareholders Agreement, the casting vote of the Chairman of the Board shall expire.
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VI GENERAL MANAGER

42. General Manager

- 42.1. The Board shall appoint one or more persons, whether or not directors, as General Manager(s) of the Company, either for a definite period or without any limitation of time, and may confer powers, authorities and rights and/or impose duties and obligations upon such person or persons and determine his or their salaries as the Board may deem fit and subject to the provisions of the Law. Subject to the Law, the Board may delegate to the General Manager its power to approve the terms of compensation of other officers.

VII MINUTES OF THE BOARD

43. Minutes

- 43.1. The proceedings of each meeting of the Board and meeting of committee of the Board shall be recorded in the minutes of the Company. Such minutes shall set forth the names of the persons present at every such meeting and all resolutions adopted thereat and shall be signed by the chairman of the meeting.
- 43.2. All minutes approved and signed by the chairman of the meeting or the Chairman of the Board, shall constitute prima facie evidence of its contents.

VIII INTERNAL AUDITOR

44. Internal Auditor

- 44.1. The Board shall appoint an internal auditor in accordance with the provisions of the Law.
- 44.2. The Internal Auditor shall submit to the audit committee a proposal for an annual or periodic work program for its approval. The Audit Committee shall approve such proposal subject to the modifications which it considers necessary.
- 44.3. The General Manager shall be in charge of and supervise the Internal auditor's performance of its obligations.

IX DIVIDENDS AND PROFITS

45. Declaration of Dividends

- 45.1. The Board may, from time to time, subject to the provisions of the Law, declare a dividend at a rate as the Board may deem considering the accrued profits of the Company as set forth in its financial statements, and provided that the payment of such dividends will not reasonably prevent the Company from meeting its current and expected liabilities.
- 45.2. Subject to any special or restricted rights conferred upon the holders of shares as to dividends, all dividends shall be declared and paid in accordance with the paid-up capital of the Company attributable to the shares in respect of which the dividends are declared and paid. The paid-up capital attributable to any share (whether issued at its nominal value, at a premium or at a discount), shall be nominal value of such share. Provided, however that if the entire consideration for same share was not yet paid to the Company, the paid-up capital attribute thereto shall be such proportion of the nominal value as the amount paid to the Company with respect to the share bears to its full consideration, and further provided the amounts which have been prepaid on account of shares and the Company has agreed to pay interest thereon shall not be deemed, for the purposes of this Article, to be payments on account of such shares. In the event no amount has been paid with respect to any shares whatsoever, dividends may be declared and paid according to the nominal value of the shares.
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45.3. Notice of the declaration of dividends shall be published as required by applicable law.

46. **Rights to Participate in the Distribution of Dividends**

46.1. Subject to special rights with respect to the Company's profits to be conferred upon any person pursuant to these Articles and the Law, all the profits of the Company may be distributed among the members entitled to participate in the distribution of dividends.

46.2. Notwithstanding for foregoing, a holder of shares shall not be attributed with the right to participate in the distribution of dividends the record date for which preceded the date of issuance of such shares.

47. **Interest on Dividends**

The Company shall not be obligated to pay, and shall not pay interest on declared dividends.

48. **Payment of Dividends**

Subject to Article 49, a declared dividend may be paid by wire transfer or a check made to the order of the person entitled to receive such dividend (and if there are two or more persons entitled to the dividend in respect of the same share - to the order of any one of such persons) or to the order of such person as the person entitled thereto may direct in writing. Same check shall be sent to the address of the person entitled to the dividend, as notified to the Company.

49. **Payment in Specie**

Upon the recommendation of the Board, dividends may be paid, wholly or partly, by the distribution of specific assets of the Company and/or by the distribution of shares and/or debentures of the Company and/or of any other company, or in any combination of such manners.

50. **Setting-Off Dividends**

The Company's obligation to pay dividends or any other amount in respect of shares, may be set-off by the Company against any indebtedness, however arising, liquidated or non-liquidated, of the person entitled to receive the dividend.

The provisions contained in this Article shall not prejudice any other right or remedy vested with the Company pursuant to the Articles or any applicable law.

51. **Unclaimed Dividends**

- 51.1. Dividends unclaimed by the person entitled thereto within thirty (30) days after the date stipulated for their payment, may be invested or otherwise used by the company, as it deems fit, until claimed; but the Company shall not be deemed a trustee in respect thereof.
- 51.2. Dividends unclaimed within the period of seven (7) years from the date stipulated for their payment, shall be forfeited and shall revert to the Company, unless otherwise directed by the Board.

52. **Reserves and Funds**

- 52.1. The Board may, before recommending the distribution of dividends, determine to set aside out of the profits of the Company or out of an assets revaluation fund and carry to reserve or reserves such sums as it deems fit, and direct the designation, application and use of such sums. The Board may further determine that any such sums which it deems prudent not to distribute as dividends will not be set aside for reserve, but shall remain as such at the disposal of the Company.
- 52.2. The Board may, from time to time, direct the revaluation of the assets of the Company, in whole or in part, and the creation of an assets revaluation fund out of the revaluation surplus, if any.

53. **Capitalization of Profits**

- 53.1. The Board may capitalize all or any part of the sums or assets allocated to the credit of any reserve fund or to the credit of the profit and loss account or being otherwise distributable as dividends (including sums or assets received as premiums on the issuance of shares or debentures), and direct accordingly that such sums or assets be released for distribution amongst the members who would have been entitled thereto if distributed by way of dividends and in the same proportion; provided that same sums or assets be not paid in cash or in specie but be applied for the payment in full or in part of the unpaid consideration of the issued shares held by such members and/or for the payment in full of the consideration (as shall be stipulated in said resolution) for shares or debentures of the Company to be issued to such members subsequent to the date of said resolution, credited as fully paid up.
 - 53.2. In the event a resolution as aforesaid shall have been adopted, the Board shall make all adjustments and applications of the moneys or assets resolved to be capitalized thereby, and shall do all acts and things required to give effect thereto. The Board may authorize any person to enter into agreement with the Company on behalf of all members entitled to participate in such distribution, providing for the issuance to such members of any shares or debentures, credited as fully paid, to which they may be entitled upon such capitalization or for the payment on behalf of such members, by the application thereto of the proportionate part of the money or assets resolved to be capitalized, of the amounts or any part thereof remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding upon all such members.
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X ACCOUNTING BOOKS

54. Accounting Books

- 54.1. The Board shall cause the Company to hold proper accounting books and to prepare an annual balance sheet, a statement of Profit and Loss, and such other financial statements as the Company may be required to prepare under law.

The accounting books of the Company shall be held at the office or at a place deemed fit by the Board, and they shall be open to inspection by the directors.

- 54.2. The Board may determine at its sole discretion the terms on which any of the accounts and books of the Company shall be open to inspection by members, and no member (other than a director) shall be entitled to inspect any account or ledger or document of the Company unless such right is granted by law or by the Board.
- 54.3. At least once a year, the Board shall submit to the Annual Meeting financial statements for the period from the previous statement as required by Law. The balance sheet shall be accompanied by an auditors' report, if available.
- 54.4. The Company shall not be required to send copies of its financial statements to members.

XI BRANCH REGISTERS

55. Authority to keep Branch Registers

The Company may keep branch registers in any reciprocal state.

56. Provisions in respect of keeping Branch Registers

Subject to the provisions contained in the Law, the Board shall be authorized to make such rules and procedures in connection with the keeping of branch registers as it may, from time to time, think fit.

XII SIGNATURES

57. The Company's Signature

- 57.1. A document shall be deemed signed by the Company upon the fulfillment of the following:
- 57.1.1. It bears the name of the Company in print;
 - 57.1.2. It bears the signature of one or more persons authorized therefor by the Board; and
 - 57.1.3. The act of the person authorized by the Board as aforesaid was within its authority and without deviation therefrom.
- 57.2. The signatory rights on behalf of the Company shall be determined by the Board.
- 57.3. An authorization by the Board as provided in Article 57.2 may be for a specific matter, for a specific document or for a certain sort of document or for all the Company's documents or for a definite period of time or for an unlimited period of time, provided that any such authority may be terminated by Board, at will.
- 57.4. The provisions of this Article shall apply both to the Company's documents executed in Israel and the Company's documents executed abroad.
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XIII NOTICES

58. **Notices in Writing**

- 58.1. Notices pursuant to the Law, the Memorandum and the Articles shall be made in the manner prescribed by the Board from time to time.
- 58.2. Unless otherwise prescribed by the Board, all notices shall be made in writing and shall be sent by mail.

59. **Delivery of Notices**

- 59.1. Each member and each director shall notify the Company in writing of his address for the receipt of notices, documents and other communications relating to the Company, its business and affairs.
- 59.2. Any notice, document or other communication shall be deemed to have been received at the time received by the addressee, or if sent by registered mail, within three (3) days from its dispatch, whichever is earlier.
- 59.3. The address for the purposes of Article 59.2 shall be the address furnished pursuant to Article 59.1, and the address of the Company for the purposes of Article 59.2 shall be its registered address or principal place of business.

XIV INDEMNITY AND INSURANCE

60. **Indemnity of Officers**

- 60.1. The Company may indemnify an Officer to the fullest extent permitted by law. Without derogating from the aforesaid, the Company may, from time to time and subject to any provision of law, indemnify an Officer in respect of a liability or expense set out below which is imposed on him or incurred by him as a result of an action taken in his capacity as an Officer of the Company:
 - 60.1.1. monetary liability imposed on him in favor of a third party by a judgment, including a settlement or a decision of an arbitrator which is given the force of a judgment by court order;
 - 60.1.2. reasonable litigation expenses, including legal fees, incurred by the Officer as a result of an investigation or proceeding instituted against such Officer by a competent authority, which investigation or proceeding has ended without the filing of an indictment or in the imposition of financial liability in lieu of a criminal proceeding, or has ended in the imposition of a financial obligation in lieu of a criminal proceeding for an offence that does not require proof of criminal intent (the phrases "proceeding that has ended without the filing of an indictment" and "financial obligation in lieu of a criminal proceeding" shall have the meanings ascribed to such phrases in Section 260(a)(1a) of the Companies Law) or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Officer in favor of an injured party as set forth in Section 52[54](a)(1)(a) of the Israeli Securities Law, 1968 (as amended, the "Securities Law"), and expenses that the Officer incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law or in connection with Article D of Chapter Four of Part Nine of the Companies Law, including reasonable legal expenses, which term includes attorney fees;
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60.1.3. reasonable litigation expenses, including legal fees, which the Officer has incurred or is obliged to pay by the court in proceedings commenced against him by the Company or in its name or by any other person, or pursuant to criminal charges of which he is acquitted or criminal charges pursuant to which he is convicted of an offence which does not require proof of criminal intent; and

60.1.4. Expenses, including reasonable legal fees, including attorney fees, incurred by the Officer with respect to a proceeding in accordance with the Restrictive Trade Practices Law, 1988 (as amended, the "Restrictive Trade Practices Law").

60.2. The Company may, from time to time and subject to any provision of the law:

60.2.1. Undertake in advance to indemnify an Officer of the Company for any of the following:

(i) any liability as set out in Article 60.1.1 above, provided that the undertaking to indemnify is limited to the classes of events which in the opinion of the Board can be anticipated in light of the Company's activities at the time of giving the indemnification undertaking, and for an amount and/or criteria which the Board has determined are reasonable in the circumstances and, the events and the amounts or criteria that the Board deem reasonable in the circumstances at the time of giving of the undertaking are stated in the undertaking. The aggregate indemnification amount payable by the Company to all indemnified persons pursuant to all indemnification undertakings issued by the Company on or after June 21, 2018 in respect of any occurrence of the events specified in the exhibit to the indemnification undertaking, shall not exceed 25% of the Company's shareholders' equity according to the latest reviewed or audited consolidated financial statements approved by the Company's Board of Directors prior to the date on which the indemnification amount is paid;

(ii) any liability stated in Article 60.1.2 through 60.1.4 (inclusive) above;

(iii) any matter permitted by applicable law.

60.2.2. indemnify an Officer after the occurrence of the event which is the subject of the indemnity.

61. **Insurance of Officers**

The Company may enter into an agreement for the insurance of the liability of an Officer, in whole or in part, with respect to any liability which may imposed upon such Officer as a result of an act performed by same Officer in his capacity as an Officer of the Company, for any of the following:

61.1.1. A breach of a cautionary duty toward the Company or toward another person;

- 61.1.2. A breach of a fiduciary duty toward the Company, provided the Officer acted in good faith and has had reasonable ground to assume that the act would not be detrimental to the Company;
- 61.1.3. A monetary liability imposed upon an Officer toward another;
- 61.1.4. Reasonable litigation expenses, including attorney fees, incurred by the Officer as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Officer in favor of an injured party as set forth in Section 52[54](a)(1)(a) of the Securities Law and expenses that the Officer incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law or in connection with Article D of Chapter Four of Part Nine of the Companies Law, including reasonable legal expenses, which term includes attorney fees;
- 61.1.5. Expenses, including reasonable litigation expenses, including attorney fees, incurred by the Officer with respect to a proceeding in accordance with the Restrictive Trade Practices Law;
- 61.1.6. Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an Officer in the Company.

61A. Exemption

Subject to the provisions of the Companies Law, including the receipt of all approvals as required therein or under any applicable law, the Board may resolve in advance to exempt an Officer from all or part of such Officer's responsibility or liability for damages caused to the Company due to any breach of such Officer's duty of care towards the Company; provided, however, that the Company may not, subsequent to June 21, 2018, provide exemption letters to an Officer for an action or transaction in which a controlling shareholder (as such term is defined in the Companies Law) or any other Officer (including an Officer who is not the Officer the Company has undertaken to exempt) has a personal interest (as such term is defined in the Companies Law).

XV WINDING UP

62. Distribution of Assets

If the Company be wound up, then, subject to provisions of any applicable law and to any special or restricted rights attached to a share, the assets of the Company in excess of its liabilities shall be distributed among the members in proportion to the paid-up capital of the Company attributable to the shares in respect of which such distribution is being made. The paid-up capital attributable to any share (whether issued at its nominal value, at a premium or at a discount), shall be a nominal value of such share, provided, however, that if the entire consideration for same share was not yet paid to the Company, the paid-up capital attributable thereto shall be such proportion of the nominal value as the amount paid to the Company with respect to the share bears to its full consideration.

SHAREHOLDERS AGREEMENT

This AGREEMENT (the "Agreement") is made as of March 24, 2008, by and between Kanir Joint Investments (2005) Limited Partnership ("Kanir"), and S. Nechama Investments (2008) Ltd. ("Nechama") (each of Kanir and Nechama is referred to herein as a "Party" and collectively as the "Parties").

WHEREAS, Kanir owns 13,649,148 ordinary shares of Nur Macroprinters Ltd. (the "Company") and 10,483,424 warrants of the Company; and

WHEREAS, the Parties contemplate entering into several transactions so that immediately following such transactions each Party will own approximately 22.7 million ordinary shares of the Company, Kanir will own approximately 13.5 million warrants of the Company and Nechama (directly or by an Affiliate) will own approximately 10.1 million warrants of the Company; and

WHEREAS, the Parties wish to set forth within the framework of this Agreement (a) the terms and conditions under which the Parties shall hold the Company shares and warrants, and (b) their respective relations in their capacity as shareholders of the Company.

NOW THEREFORE, in consideration of the mutual promises and covenants set forth herein, the Parties hereby agree as of the date first mentioned above as follows:

1. **Preamble.** The Preamble to this Agreement constitutes an integral part of this Agreement.

2. **Sales by Parties; Minimum Holdings:**

- 2.1. Notwithstanding anything to the contrary in this Agreement, except for the provisions of Section 4.6, 6 and 7.4 below, until 31.3.2010 (the "Lock-Up Period"), none of the Parties shall sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber any Restricted Shares held by it, except that each Party shall be entitled to pledge the Restricted Shares held by such Party to a bank in order to finance the purchase thereof. "Restricted Shares" shall mean, for each Party (together with its Permitted Transferees pursuant to Section 4.6 below), such number of the Company's shares constituting 25.05% of the total outstanding shares of the Company. The number of Restricted Shares shall be adjusted upon any issuance by the Company of any shares, including without limitation, upon the exercise of options, rights or warrants, upon the issuance of bonus shares or upon the consummation of stock splits, combinations and the like.
 - 2.2. During the Lock-up Period, except as set forth in Section 6 and 7.4 below, and following the Lock-up Period for so long as neither Party has sold or otherwise transferred its Restricted Shares to a Proposed Purchaser (as defined in 4.1 below), each Party (together with its Permitted Transferees pursuant to Section 4.6 below) shall hold such number of shares of the Company constituting, at all times, at least 25.05% of the total outstanding shares of the Company. Accordingly, during the periods described in the immediately preceding sentence, if any Party's share holding in the Company shall decrease below such threshold by dilution or otherwise, then promptly upon learning thereof, such Party shall acquire at least such number of additional shares of the Company to cause such Party to comply with this Section 2.2, by exercising options or warrants or purchasing shares from third parties or otherwise.
-

3. Purchase and Sale of Shares by Parties:

Following the date hereof and during the Term (as defined below), each Party shall be entitled to (i) directly or indirectly purchase additional Shares, warrants or other securities of the Company (“**Securities**”); and (ii) sell Securities other than Restricted Shares (which Restricted Securities may only be sold in accordance with other provisions of this Agreement), following the provision of a seven (7) days prior written notice to the other Party.

4. Right of First Refusal:

- 4.1. If, following the Lock-Up Period, Nechama or Kanir (the “**Selling Party**”) wishes to sell or otherwise transfer all of such Party’s Restricted Shares (the “**Offered Shares**”) and shall obtain a bona fide offer (the “**Third Party Offer**”) from a non-Affiliated potential purchaser (the “**Proposed Purchaser**”) to purchase all such Offered Shares, then in such an event the Selling Party shall be required to first offer such Offered Shares to the other Party (the “**Offeree**”). The Selling Party shall send the Offeree a written offer (the “**Offer**”) in which the Selling Party shall specify the following information: (i) the number of Offered Shares that the Selling Party proposes to sell or transfer to the Proposed Purchaser, the identity of the Proposed Purchaser, the price and payment terms and the other terms and conditions contained in the Third Party Offer; (ii) a representation and warranty that the Offered Shares shall, upon their transfer, be free and clear of all pledges, debts, security interests and other third party interests (“**Free and Clear**”). For the avoidance of doubt, (a) a Party shall not be entitled to sell and transfer to a Proposed Purchaser part of its Restricted Shares; and (b) no sale shall be done for consideration other than cash.
- 4.2. The Offer shall constitute an irrevocable offer made by the Selling Party to sell and transfer to the Offeree the Offered Shares, upon the terms specified in the Offer.
- 4.3. If the Offeree wishes to purchase all (but not a part) of the Offered Shares it shall notify in writing the Selling Party of its intent within fourteen (14) days of receipt of the Offer (“**Notice of Acceptance**”) and the closing of such transaction shall take place within thirty (30) days of receipt of the Notice of Acceptance and the Offered Shares shall be sold and transferred to the Offeree Free and Clear against payment of the consideration as specified in the Offer
- 4.4. If the Offeree declines to purchase all of the Offered Shares upon the terms specified in the Offer or does not respond to the Offer within fourteen (14) days of its receipt or if the Offeree fails to consummate the transaction within thirty (30) days of the Notice of Acceptance due to the Offeree’s fault, then in any of such events the Selling Party may sell all (but not a part) of the Offered Shares to the Proposed Purchaser, provided that such sale is consummated (i) in a bona fide transaction, (ii) at a price that is not lower than that specified in the Offer and (iii) subject to payment terms that are no more favorable to the Proposed Purchaser than those specified in the Offer, all within ninety (90) days of the date of the Offer and provided further that the Proposed Purchaser shall join this Agreement in writing and shall assume instead of the Selling Party, all of the rights and obligations of the Selling Party in its capacity as a shareholder of the Company in accordance with the terms of this Agreement. In the event that the sale to the Proposed Purchaser in the manner set forth above is not effected within said ninety (90) days, the right of first refusal described herein shall apply again.

- 4.5. A transfer of Control (as defined below) in any legal way in either Party shall be deemed for the purpose of this Agreement as a sale by such Party of all of its Restricted Shares and Sections 4 and 5 shall apply, *mutatis mutandis*. Each Party which is subject to such transfer of Control shall have the obligation to promptly notify the other Party of such event. Notwithstanding anything to the contrary, a transfer of interests in Kanir among its partners as of the date hereof shall not be deemed a transfer of Control.
- 4.6. Notwithstanding anything to the contrary in this Agreement, the rights of the Parties pursuant to the aforesaid provisions of this Section 4 and Section 5 below as well as the restriction under Section 2 above shall not apply with respect to a Permitted Transfer, provided that: (A) the transferee shall join this Agreement in writing and agree to be bound by the terms of this Agreement; and (B) the transferor shall continue to be bound by this Agreement and guarantee the performance by the transferee of its obligations under this Agreement.

For the purpose of this Section 4, the term “**Permitted Transfer**” means a sale or other transfer of Restricted Shares by a Party to an Affiliate of such Party.

“**Affiliate**” means, with respect to any Party, any person or legal entity (i) in which such Party, directly or indirectly, owns at least majority (more than 50%) interest (both economic and voting), or (ii) which directly or indirectly owns a majority (more than 50%) interest (both economic and voting) in such Party, or (iii) which, directly or indirectly, is in Control of or is Controlled by such Party.

“**Control**” means in relation to a person that is a corporation, the ownership, directly or indirectly, of voting securities of such person carrying more than 50% of the voting rights attaching to all voting securities of such person which are sufficient, if exercised, to elect a majority of its board of directors; and (ii) in relation to a person that is a partnership, limited partnership, business trust or other similar entity, the ownership, directly or indirectly, of voting securities of such person carrying more than 50% of the voting rights attaching to all voting securities of the person or the ownership of other interests entitling the holder to exercise control and direction over the activities of such person;

5. Tag Along:

- 5.1. Notwithstanding the provisions of Section 4 above, the Offeree shall, during the fourteen (14) day period in which the Offeree could have provided the Notice of Acceptance pursuant to Section 4 above, have the right to notify the Selling Party of its intent to exercise the Tag Along Right pursuant to this Section 5 above (the "**Tag Along Notice**").
- 5.2. Following the Tag Along Notice, the Selling Party shall not sell any of the Offered Shares to the Proposed Purchaser, unless the Proposed Purchaser shall purchase from both the Offeree and the Selling Party, at the Offeree's discretion, either (i) all of their respective Restricted Shares; or (ii) such a number of Restricted Shares equal to the product obtained by multiplying (i) the aggregate number of the Offered Shares, by (ii) a fraction the numerator of which is the number of Restricted Shares owned by the Offeree at the time of the proposed sale to the Proposed Purchaser and the denominator of which is the total number of Restricted Shares owned by both the Offeree and the Selling Party at the time of the proposed sale to the Proposed Purchaser; such sale to be upon the same terms and conditions under which the Selling Party's Offered Shares shall be sold.

6. Buy Me Buy You:

- 6.1. If following January 1, 2009 (but (subject to Section 7.4 below) there shall be any disagreements between the Parties in relation to the Company or its business activities, then the Parties shall make their best efforts to resolve all such disagreements within thirty (30) days of a notice submitted by any of them to the other Party so requesting. If all the disagreements are not resolved within such thirty (30)-day period, the Parties shall make their best efforts to resolve all such disagreements by mediation. The Parties have selected Ram Caspi and Oded Eran as the mediators for any unresolved disagreements under this Agreement. In the event that any of the said mediators becomes unwilling or unable to serve, his respective firm shall appoint a senior partner as a successor mediator.
- 6.2. If all the disagreements are not resolved by mediation within thirty (30) day period as provided in Section 6.1 above, then each of the Parties (the "**Offering Party**") shall have the right to notify the other Party (the "**Receiving Party**"), in writing (the "**Notice**") of its demand to purchase all (but not a part) of the other Party's Restricted Shares, or to sell all (but not a part) of its Restricted Shares to the other Party, at a price per share to be specified in the Notice, payable in cash against the transfer of the relevant shares Free and Clear. Issuing the said Notice shall constitute an irrevocable offer by the Offering Party for all intents and purposes.
- 6.3. Within thirty (30) days from the date of receipt of Notice, the Receiving Party shall be obligated to send to the Offering Party a notice indicating whether it shall sell all (but not a part) of its Restricted Shares to the Offering Party or purchase all (but not a part) of the Restricted Shares of the Offering Party, in accordance with the terms set forth in the Notice.

- 6.4. Failure on the Receiving Party to respond to the Notice within thirty (30) days from the date of receipt thereof, shall be the same as the Receiving Party's consent to sell all of its Restricted Shares to the Offering Party, in accordance with the terms set forth in the Notice.
- 6.5. If the Receiving Party issues a notice indicating that it wishes to purchase all (but not a part) of the Offering Party's Restricted Shares, as set forth in the Notice, the Parties shall be deemed to have entered into a binding agreement whereby the Receiving Party shall purchase all of the Offering Party's Restricted Shares in accordance with the terms set forth in the Notice.
- 6.6. If the Receiving Party issues a notice indicating that it wishes to sell all (but not a part) of the Receiving Party's Restricted Shares, as set forth in the Notice, the Parties shall be deemed to have entered into a binding agreement whereby the Offering Party shall purchase all of the Receiving Party's Restricted Shares in accordance with the terms set forth in the Notice.
- 6.7. The consummation of the sale transaction shall take place not later than hundred and twenty (120) days from the date of receipt of the Notice (the **Closing Date**). On the Closing Date, the Parties shall simultaneously perform all the acts required for transferring all of the selling party's Restricted Shares to the purchasing party Free and Clear, in accordance with the terms set forth in the Notice.

7. Board of Directors and General Meetings:

For the purpose of this Section 6, the following definitions shall apply:

Organizational Documents shall mean the memorandum of association, articles of association, certificate of incorporation, by laws, certificate of designation or other similar constitutional documents of an entity.

Related Party shall mean (1) a director or an officer of the Company or a nominee to become a director of the Company; (2) a shareholder of the Company which owns 5% or more of its issued share capital; (3) a family member of the first degree of any of the foregoing persons; and (4) an Affiliate of any of the foregoing.

Related Party Transaction shall mean any transaction of the Company or of a subsidiary of the Company with a Related Party.

- 7.1. **Composition of the Board of Directors.** The Board of Directors of the Company shall consist of 6 members. Each Party shall be entitled to recommend the appointment of two (2) directors and one (1) independent director to the Board of Directors of the Company and to recommend removing and replacing its respective proposed directors, subject to any applicable law.
- 7.2. The Parties shall use their best efforts to ensure that the candidates recommended pursuant to Section 7.1 above shall be appointed as directors of the Company or be removed, as the case may be, and that such recommended directors shall constitute the only members of the Board of Directors of the Company.

- 7.3. **Chairman of the Board.** During a period of five (5) years commencing on the date in which the Parties jointly acquire Control over the Company, Mr. Shlomo Nechama shall be appointed as the Chairman of the Board of the Company. At the expiration of such five (5) years period the Parties shall agree upon the identity of the successor Chairman of the Board of the Company. If Mr. Nechama is unable to perform his duty due to physical or mental incapacity and such inability continues for a period of at least 6 consecutive months, then in such an event the Parties shall agree upon the identity of the successor Chairman of the Board of the Company.
- 7.4. **Casting Vote.** In the event the number of Directors voting for the adoption of a resolution by the Board of Directors equals the number of Directors voting against such resolution, then so long as (i) Nechama holds Restricted Shares constituting at least 25.05% of the outstanding shares of the Company; and (ii) Mr. Shlomo Nechama serves as the Chairman of the Board, the Chairman of the Board shall have a casting vote (the “**Casting Vote**”). Notwithstanding anything to the contrary, in case Mr. Shlomo Nechama elects to exercise his Casting Vote in respect of a specific resolution brought before the Board of Directors (the “**Triggering Resolution**”), then (i) prior to such exercise, Nechama shall be required to trigger the Buy Me Buy You mechanism provided in Section 6 hereof as an Offering Party, whereby the Triggering Resolution will be pending until the consummation of the sale of the Restricted Shares of one party to the other party in accordance with such Buy Me Buy You mechanism; and (b) in the event that three (3) directors of the Company so require, the Triggering Resolution shall be conditioned upon the approval of the General Meeting of the Company. Upon a transfer of the Restricted Shares by Kanir to third party in accordance with the terms of this Agreement, the Casting Vote shall expire and the provisions of this Section 7.4 shall be terminated. For the avoidance of doubt it is hereby clarified that Nechama shall be entitled to trigger the Buy Me Buy You mechanism provided in Section 6 hereof as Offering Party, in accordance with this Section 7.4, even prior to January 1, 2009.
- 7.5. **Scope of Authority of the General Meeting.** In addition to those decisions which, under the Organizational Documents of a Company, require approval of the General Meeting of its shareholders, the Parties shall use their best efforts to cause the Articles of the Company to be amended so that a decision or action by or on behalf of the Company on any of the following matters, shall require the approval of holders of 50.1% or more of the outstanding shares of the Company, if so requested by any two (2) members of the Company’s Board of Directors:
- 7.5.1. Related Party Transactions;
 - 7.5.2. any amendment of the Company’s incorporation documents;
 - 7.5.3. any merger or consolidation of the Company;
 - 7.5.4. any material change in the Company’s scope of business;
 - 7.5.5. the voluntary liquidation or dissolution of the Company;

7.5.6. approval of the Company's annual budget and business plan, and any material deviation therefrom; and

7.5.7. any change of the signatory rights on behalf of the Company.

7.6. The Parties shall vote all the Company's shares held by them (whether Restricted Shares or otherwise) as provided in this Agreement and where this Agreement is silent as the Parties shall agree prior to any General Meeting of the Company as to their vote. In the event the Parties do not reach an agreement regarding certain resolution proposed to the General Meeting, The Parties shall vote all of their respective Shares against such proposed resolution.

8. No Agreements with Other Shareholders:

During the Term, each Party shall be prohibited from entering into, or otherwise being a party to, any Shareholders Agreement with any direct or indirect shareholder of the Company. Each Party represents to the other Party that as of the date of closing of the purchase of the Company's shares by the parties from the Fortissimo Entities it shall not be a party to any other Shareholders Agreement. "**Shareholders Agreement**" means any voting or similar agreement, or any agreement relating to the exercise of voting rights in the Company, or any similar undertaking or commitment (including a unilateral commitment), whether in the form of a written instrument or otherwise.

9. Term of the Agreement:

9.1. This Agreement shall come into effect as of the date hereof and shall be in full force and effect so long as (a) the Parties hold controlling interest in the Company, or (b) each of the Parties or its successor as provided in Section 4.4 hold all (but not a part) of its Restricted Shares (the "**Term**").

9.2. Upon exercise of the pledge on each Party's Restricted Shares provided by such Party to Discount Bank for financing the purchase thereof, this Agreement shall be automatically terminated.

10. Miscellaneous:

10.1. The Parties undertake that as soon as possible after the acquisition of the Control over the Company, they shall cause the Articles of the Company to be amended so that the revised Articles shall reflect the applicable provisions of this Agreement.

10.2. Unless the context otherwise requires, this Agreement shall apply to all Securities which are or may be held by either Party during the term of this Agreement.

10.3. Each of the Parties shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of this Agreement and the intentions of the parties as reflected hereby.

10.4. This Agreement shall be governed by the laws of the State of Israel, without regard to the conflict of law provisions thereof. Any dispute arising under or with respect to this Agreement shall be resolved exclusively in the appropriate court in Tel Aviv, Israel.

10.5. All notices required or permitted hereunder to be given to a Party pursuant to this Agreement shall be in writing and shall be deemed to have been duly given to the addressee thereof (i) if hand delivered, on the day of delivery, (ii) if given by facsimile transmission, on the business day on which such transmission is sent and confirmed, or (iii) if delivered by air mail, five business days following the date it was sent, to such Party's address as set forth below or at such other address as such Party shall have furnished to the other Party in writing in accordance with this provision:

If to Kanir:

Kanir Joint Investments (2005) Limited Partnership

25 Nachmani Street

Tel Aviv 66794

Israel (c/o Erdinast, Ben Nathan & Co., Advocates)

Attention: Menahem Raphael

Fax: (972) 3-525-0896

With a Copy to:

Goldfarb, Levy, Eran, Meiri, Tzafrir & Co.

2 Weizmann Street

Tel Aviv 64239

Israel

Attention: Adam Klein, Adv. & Ido Gonen, Adv.

Fax: (972) 3-6089909

If to Nechama:

c/o Caspi & Co. Law Offices

33Yaavetz Street

Tel Aviv 65258

Israel

Attention: Ram Caspi, Adv.

Fax: +972-3-796-1001

- 10.6. Subject to Sections 7.3 and 7.4 above, nothing contained in this Agreement shall be deemed to grant any right to any person or entity that is not a party to this Agreement.
- 10.7. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law but if any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable under applicable law, then such provision shall be excluded from this Agreement and the remainder of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms; provided, however, that in such event this Agreement shall be interpreted so as to give effect, to the greatest extent consistent with and permitted by applicable law, to the meaning and intention of the excluded provision as determined by such court of competent jurisdiction.
- 10.8. Section headings contained in this Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.
- 10.9. This Agreement together with the documents expressly referred to herein, constitute the entire agreement among the Parties with respect to the subject matter contained herein and supersedes all prior agreements and understandings among the Parties with respect to such subject matter.
- 10.10. No modification, amendment or waiver (each, a "**Modification**") of any provision of this Agreement will be effective unless such Modification is approved in writing by all Parties. The failure of any Party to enforce any of the provisions of this Agreement will in no way be construed as a waiver of such provisions and will not affect the right of such Party thereafter to enforce each and every provision of this Agreement in accordance with its terms.
- 10.11. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same document.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

Kanir Joint Investments (2005) Limited Partnership

By: KANIR INVESTMENTS LTD.
Its General Partner

By: /s/ Menachem Raphael

Name: Menachem Raphael
Title: Director

By: /s/ Ran Fridrich

Name: Ran Fridrich
Title: Director

S.Nechama Investments (2008) Ltd.

By: /s/ Shlomo Nechama

Name: Shlomo Nechama
Title: Director

[Signature Page to Shareholders Agreement dated March 24, 2008]

ELLOMAY CAPITAL LTD.

List of Subsidiaries as of December 31, 2018

Name of Subsidiary	Percentage of Ownership	Jurisdiction of Incorporation
Ellomay Clean Energy Ltd.	100%	Israel
Ellomay Clean Energy LP	100%	Israel
Ellomay Luxemburg Holdings S.à.r.l.	100%	Luxemburg
Ellomay PV One S.r.l.	100% ¹	Italy
Ellomay PV Two S.r.l.	100% ¹	Italy
Ellomay PV Five S.r.l.	100% ¹	Italy
Ellomay PV Six S.r.l.	100% ¹	Italy
Ellomay PV Seven S.r.l. (formerly Energy Resources Galatina S.r.l.)	100% ¹	Italy
Pedale S.r.l.	100% ¹	Italy
Luma Solar S.r.l.	100% ¹	Italy
Murgia Solar S.r.l.	100% ¹	Italy
Soleco S.r.l.	100% ¹	Italy
Technoenergy S.r.l.	100% ¹	Italy
Ellomay Spain S.L.	100% ¹	Spain
Rodríguez I Parque Solar, S.L.	100% ¹	Spain
Rodríguez II Parque Solar, S.L.	100% ¹	Spain
Seguisolar S.L.	100% ¹	Spain
Talasol Solar S.L.U.	100% ¹	Spain
Ellomay Solar S.L.U.	100% ¹	Spain
Ellomay Holdings Talmei Yosef Ltd.	100%	Israel
Ellomay Sun Team Ltd.	100% ²	Israel
Ellomay Talmei Yosef Ltd.	100% ³	Israel
Ellomay Water Plants Holdings (2014) Ltd.	100%	Israel
Ellomay Manara (2014) Ltd.	100% ⁴	Israel
Ellomay Pumped Storage (2014) Ltd.	75% ⁴	Israel
Chasgal Elyon Ltd.	75% ⁵	Israel
Agira Sheuva Electra, L.P.	75% ⁵	Israel
Groen Gas Goor B.V.	51% ¹	The Netherlands
Groen Goor, Independent Power Plant B.V.	51% ⁶	The Netherlands
Groen Gas Oude-Tonge B.V.	51% ¹	The Netherlands
Oude Tonge Oude Tonge Holdings B.V.	51% ⁷	The Netherlands

1. Held by Ellomay Luxemburg Holdings S.à.r.l.
2. Held by Ellomay Holdings Talmei Yosef Ltd.
3. Held by Ellomay Sun Team Ltd.
4. Held by Ellomay Water Plants Holdings (2014) Ltd.
5. Held by Ellomay Manara (2014) Ltd.
6. Wholly-owned by Groen Gas Goor B.V.
7. Wholly-owned by Groen Gas Oude-Tonge B.V.

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

I, Ran Fridrich, certify that:

1. I have reviewed this annual report on Form 20-F of Ellomay Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 28, 2019

/s/ Ran Fridrich
Ran Fridrich
Chief Executive Officer

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

I, Kalia Weintraub, certify that:

1. I have reviewed this annual report on Form 20-F of Ellomay Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 28, 2019

/s/ Kalia Weintraub
Kalia Weintraub
Chief Financial Officer

Certification Pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

In connection with the Annual Report on Form 20-F of Ellomay Capital Ltd. (the "Company") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officers of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Ran Fridrich
Ran Fridrich
Chief Executive Officer

/s/ Kalia Weintraub
Kalia Weintraub
Chief Financial Officer

Date: March 28, 2019

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ellomay Capital Ltd.:

We consent to the incorporation by reference in the registration statements (Nos. 333-187533, 333-102288 and 333-92491) on Form S-8 and (Nos. 333-199696 and 333-144171) on Form F-3 of Ellomay Capital Ltd. of our report dated March 28, 2019, with respect to the consolidated statements of financial position of Ellomay Capital Ltd. as of December 31, 2018 and 2017, and the related statements of profit or loss and other comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”), which report appears in the December 31, 2018 Annual Report on Form 20-F of Ellomay Capital Ltd.

/s/ Somekh Chaikin
Somekh Chaikin

Certified Public Accountants (Isr).
Member firm of KPMG International

Tel-Aviv, Israel

March 28, 2019

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Dorad Energy Ltd.

We consent to the incorporation by reference in the registration statements (Nos. 333-187533, 333-102288 and 333-92491) on Form S-8 and (Nos. 333-199696 and 333-144171) on Form F-3 of Ellomay Capital Ltd. of our report dated February 24, 2019, with respect to the statements of financial position of Dorad Energy Ltd. as of December 31, 2018 and 2017 and the related statements of profit or loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the “financial statements”), which report appears in the December 31, 2018 annual report on Form 20-F of Ellomay Capital Ltd.

/s/ Somekh Chaikin
Somekh Chaikin

Certified Public Accountants (Isr).
Member firm of KPMG International

Tel-Aviv, Israel

March 28, 2019
